

Strategies for Successful Procurement Partnerships
Part 1 of a 4-part series

Trust and Character

The New Bottom Line in Procurement

“Always be able to vouch for the character and honesty of your supplier. This is rapidly becoming the new best practice and today’s most promising and successful leaders are energetically embracing a partnership approach to procurement that is paying off with positive impact and great results.”

-Joe Williamson



By Joe Williamson
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KEY TAKEAWAYS

Beyond the bid: Procurement is not just purchasing – it’s a value proposition

- Procurement takes into account the concerns of engineering, quality assurance, manufacturing, CEO and other businesses.
- The days of procurement being concerned with solely the lowest bid are over.

Seek out a partnership – not just a product

- How successful are your SRMs? Learn how to be a great supplier relationship manager.
- Open up your processes to suppliers. Help them understand your pains. In turn, save time and learn more about them. Assess who is willing to grow with you.

Know your supplier’s character

- Your entire supply chain – and your legal status – can be put in jeopardy by unscrupulous suppliers who break legal and regulatory guidelines, such as bribery.

Why This Information Is Important to Your Procurement Strategy

For long-term success, you must have a strong relationship with suppliers and know how they can help you grow. In today's world, procurement decision making must take into account major goals that are important to major stakeholders within your company.

As a procurement decision maker, you have to honestly ask yourself the question: Is your strategy built on priorities that go beyond securing the lowest price?

Gone are the days when all you needed from a supplier was a low bid. This is the instant oatmeal approach. You expect something great right away. The result – *cheap*. And the product is not *good*.

Price is always important, but now more than ever procurement decisions must also be long-term decisions guided by factors, such as: Geopolitical conditions, manufacturing standards, federal and international law, and the declared missions of your corporation, your suppliers and the philosophies of your clients.

While pricing is important, it is the *trust and character* of your supplier that is the *new bottom line*.

All this considered, the final result you're striving for is more than just a product-at-a-price. It's a partnership with your supplier and everything they believe in, practice and are capable of contributing to your growth. Such partnerships are long-term engagements founded on professional integrity of both you and your supplier.

Procurement Is More Than Just Purchasing

It has become part of your mission to teach others that **procurement** is more than just a task. Purchasing is part of the larger procurement umbrella. Purchasing is the *process* of how goods and services are ordered. Procurement is a *business philosophy* that deals with the sourcing activities, negotiation and strategic selection of goods and services that are usually of importance to an organization. That means your *organization's mission and corporate initiatives* help to inform procurement decisions.

Just as procurement is bigger than just purchasing, procurement *best practices* are bigger than just bottom-line pricing. As a procurement decision maker, your best practices should be based in part on overall company strategy. That is, unless your overall company strategy can be summarized in one simple premise – go for the cheapest price when sourcing for supplies.

In reality, going-for-cheap is risky and very outdated. But it is easy to understand why the lure of a low price can be attractive to procurement professionals seeking not only to save – that's important – but also to deliver an impressive bottom line to the company.

LCCS Delivers Only a Short-Term Gain. Are You Willing to Risk It?

Low-Cost Country Sourcing (LCCS) is a strategy that seeks low operating expenses by sourcing materials from countries with lower labor and production costs. In the broad category of procurement, this is focused on sourcing goods on an international level. This procurement strategy is called Global Sourcing and is practiced with the full recognition that a procurement menu of choices includes the entire world for its goods and services – and the economies of nations and regions considered low-cost countries (LCC) globally will often exploit its own labor forces to attract customers.

On a macro level, LCCS has three pricing roles:

- 1. Source** lowest cost/lowest risk suppliers in regions of the world which align best within its own model
- 2. Remove** cost from existing supply chain of materials and products
- 3. Negotiate** contracts in the company's best interest today and perhaps for long-term

LCCS can be an attractive strategy for organizations with communication challenges, where business stakeholders exist in silos. In such environments, c-suite executives might point to an out-of-context cost number on a spreadsheet and demand, "Bring it down!" without any understanding of how you got to that number. That is, unless they are invited to participate in how you determine the cost.

Within this LCCS model, sourcing experts may go to a two-tiered/two-step strategy. This entails sourcing materials from at least two suppliers each in both domestic and international regions. The plan is to reduce costs by spreading the spend internationally within the LCCs and leverage the new price as the benchmark for domestic suppliers. In most cases, experienced global sourcing experts will rely heavily on domestic suppliers as providing the value to their supply chain.

Of course, there may be ways to bring costs down. There may also be *even better ways to create a value to your procurement decisions* based on sound input from others in your own organization. Then your decisions will be recognized as having a larger strategic value.

Procurement Touches All Other Businesses – So Unite Them In Your Collaboration

Procurement is more than just purchasing. It's a philosophy that is interconnected to most other businesses in your organization. For example, a product or material that is chosen solely on low price may lack strength and durability, causing problems for your internal partners in Quality Assurance, Production or Engineering. Here's another example: A product that habitually shows up late for assembly

will create headaches for Manufacturing. Problems such as these will cause an outcry that negates the value of the “cheap” bottom line. In other words, your procurement efforts will be a failure.

The idea of procurement leadership seeking input from colleagues in legal, engineering, quality assurance, manufacturing and even the CEO might seem self-defeating. A surrender of autonomous territory. Here’s an approach that inspires success: Team up with buyers, purchasing agents and others on your team with the enticement that they’re part of something bigger and better – actions that lower cost, reduce risk, and create efficiency by consolidating suppliers. Build credibility for your colleagues. Make them heroes!

Reaching out in partnership to other areas of the organization is not just a smart move in optimizing procurement practices. Bringing these other stakeholders with you is a great career positioning step!

In “10 Best Practices You Should be Doing Now,” Bob Engel writes in *Supply Chain Quarterly*, “Best-in-class companies hire supply chain managers who have strong communication and relationship management skills (both internally and externally), the ability to think strategically, and a focus on value creation.”

How Procurement Can Help Fulfill Larger Corporate Strategy

To deliver on securing products and supplies that support the mission of your company’s many businesses, procurement should view all purchasing and partnership through more than just the cost lens.

Start by asking basic but deep questions. What does your company stand for? What does your company believe in? For instance, if your company supports sustainability and green policies, then it is important that procurement is all in on this mission, including your choices of products and suppliers.

That’s an inspiring and motivating thought. Once in motion, it can get complicated. But there is help and great resources in determining how to start. For instance, the OECD (The Organisation for Economic Co-operation and Development) is a 35-nation member (including the United States) international organization founded in 1961 dedicated to economic development that promotes economic policies that “build a stronger, cleaner and fairer world.” The OECD’s report, *Going Green: Best Practices for Sustainable Procurement* provides GPP (Green Public Procurement) resources and case studies that provide valuable information about how well countries strive for and accomplish green standards.

Reports from the OECD and other organizations can give you the context and conditions of major industrial countries so that you have a general understanding of how compliant or noncompliant most industrial nations are to green procurement practices.

Marketing Potential

Your procurement decisions can also strengthen the message to your own audience. If your company targets customers who value sustainability, then your procurement decisions will make an impact in the marketing message to them, too.

The same thinking can be applied to your decision making when you take into account the advice and priorities of stakeholders in legal, engineering, quality assurance, manufacturing and especially the CEO.

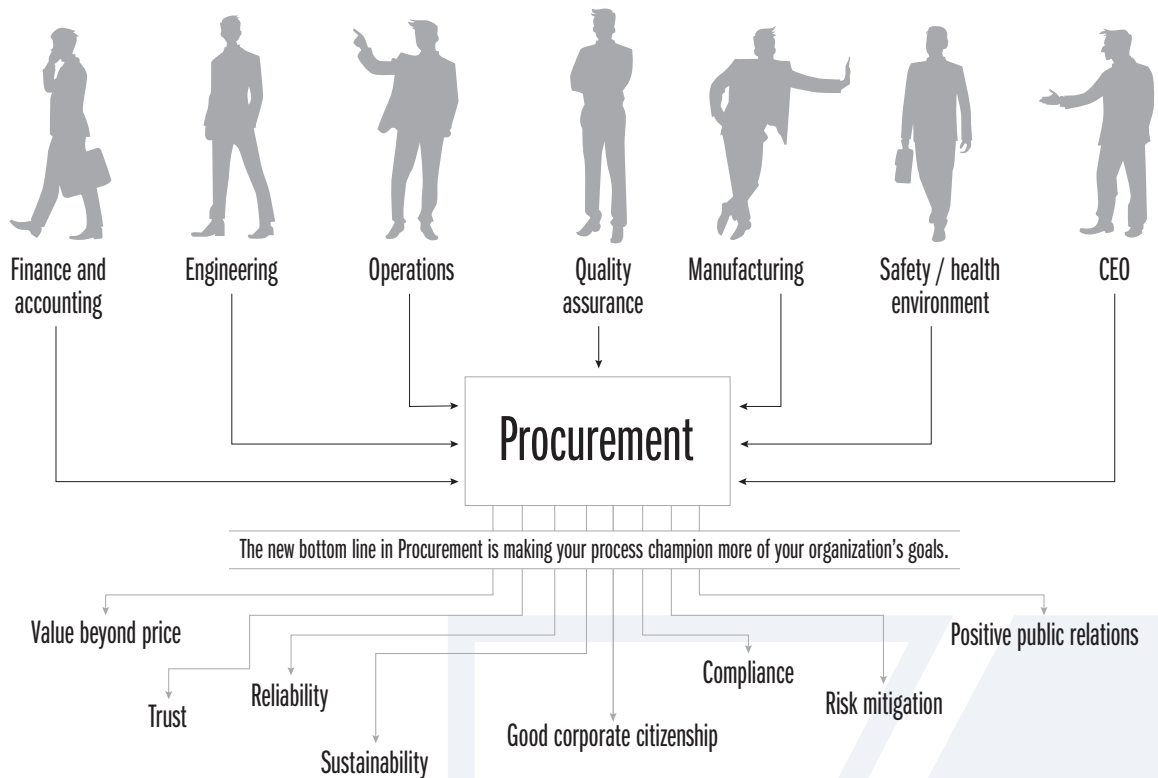


Figure 1. Distill the best goals of each business into Procurement policy.

Leadership loves autonomy, which when gone unchecked, can turn into isolation. It is important that you prevent business leadership from staying in silos and bring them together to benefit your company's procurement program. Leverage their expertise to ensure your decisions result in benefits with real positive impacts that reduce risk, anticipate problems, seek out strong partnerships and best represent the unified company vision.

A Great Supplier Doesn't Just Sell a Product – It's a Strategic Partner

In this section we redefine the purpose of the supplier relationship. It is more than just securing a product or material. It is establishing a partnership with suppliers who align most with your strategic goals.

How do you go from just fielding bids to building a business relationship with suppliers? You can learn a lot from your colleagues in sales. A good sales team spends time with its clients. They build relationships not just to sell, but to more deeply understand client needs in order to better serve. That service includes new transactions.

Similarly – **procurement** must have a clear understanding of suppliers' capabilities. You may have many extra resources at your fingertips that you are not aware of. Your suppliers are as important as your internal departments. You would want to know all the talent and resources in your own organization. If not, it's like having a pantry filled with food but you only select what's on one shelf. The same goes for the capabilities of your supplier.

Find the Supplier That Practices KYC (Know Your Customer)

It goes both ways. Kent Elastomer Products, an Ohio tubing and dip molding manufacturer, recognizes the strength in their best customers comes from strong relationships. "Our team has been trusted advisors to our longtime customers for decades," says president Bob Oborn. "It's something very special, rare and significant when people talk about KYC and understanding their business."

How Do You Get to Know Your Suppliers?

It's simple. Instead of focusing in on the product you immediately need, begin to ask the bigger questions in order to find a good supplier fit with your own goals. By asking questions, you will soon discover which suppliers want to just sell you a product versus those whose capabilities align and who you grow with strategically.

Ask suppliers some big picture questions: *What do you do well today? What are your challenges? How do you want to grow and what investments are you making? In addition to what you can do for us – what are your other capabilities?*

Be candid with your suppliers. Tell them exactly what you need and what your pains are. Be specific as possible with what you need. Good suppliers tell you if they can offer you a solution or not. They will be willing to invest in a few preliminary meetings to determine if they can partner with you to grow together.

"Our top five customers started projects with us in the early stages of design, some as concepts," adds Joe Williamson, Senior Director of Global Sales and Customer Operations for Kent Elastomer Products, a supplier for medical, dental, food and beverage, laboratory supply and other industries. "These companies worked with our team to develop materials and prototypes for testing. In one good example of trust and partnership for a specific client, we aligned with our raw material supplier to formulate a compound that is exclusively used in one of their medical devices."

What's the Secret to Successful SRM (Supplier Relationship Management)?

The days of procurement being the sum total of managing your spend and finding the lowest price is over. "In today's world, managing the supply base is about strengthening relations that can make or break your business," states procurement platform expert Mickey North Rizza in *Supply Management*, the official publication of the Chartered Institute of Procurement and Supply (CIPS), an organization that supports leading edge thinking and professionalism in procurement.

Practicing good SRM means, once again, you have to look beyond the bid. How do you build great relationships? Know your supplier, not just by interviewing them, but opening up to them as well. Earn your suppliers' trust. Listen to their concerns. Involve them in your processes. Tout your own strengths. Admit to them your weaknesses.

Your willingness to discuss your challenges with professionalism and candor can inspire smart, hard-working suppliers to provide better strategies and surprising new solutions.

But first, you must open the communication channels with them and take a long-term approach to the partnership.

How Does Your Supplier Operate?

One aspect of good partnership is understanding how you and your supplier can integrate through operational efficiency. Begin by looking beyond the product or supply you are procuring. Learn how your supplier operates, and make sure your systems work as seamlessly as possible with theirs in such areas as invoicing and order fulfillment.

Is Your Supplier Innovative?

What an overused word – innovation. But in the procurement world, it can be fairly easily tested by challenging your supplier to collaborate with you on quality improvement, problem solving or product development. By working together, both you and supplier will better understand each other's potential and, if all goes well, adopt improved best practices on both sides.

Kent Elastomer Products is a supplier that has demonstrated an eagerness to grow with their clients, innovating along the way. "During the late '80s and into the '90s, latex allergies became prevalent," says Bob Oborn, longtime Kent Elastomer Products employee who now serves as company president. "It was only a matter of time before this affected sales, as we're a natural rubber latex tubing manufacturer. So we invested and expanded our material portfolio in addition to adding the capability of extrusion technology with TPEs, TPVs, PVCs and more. This has allowed us to continue to serve new customers and impress the ones we already had. They saw that we had the capability to adapt!"

Leveraging your supplier's capabilities is one great benefit of successful SRM. But how do you assess this? Suppliers, like any business, will claim to have expertise in certain areas, but how do you really know? Their stories and case studies can be backed up in simple ways:

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- **Tour** their plant.
 - **Observe** the process.
 - **Meet** their workers. Ask how they were trained and how long they've worked there.
 - **Observe** the testing.
 - **Ask** about the equipment being used.

The expertise will reveal itself in the stories of product improvement and development, faster time-to-market, transactional efficiency, increased reliability, reduced risk and other innovations.

A Good Supplier Has a "Portfolio" of Work – Ask to See It

There's a whole history of business success behind the bid of every good supplier. Another good way to assess a supplier's capabilities is to see their "portfolio." That is, some examples of what they have done for other customers. Get these pieces in your hands. Examine them. Feel the quality. Ask them to tell you the story of why it's great. Request customer case studies. Use these examples to discuss with suppliers how they can also work with you just as successfully.

If your supplier understands your corporate and operational mission through successful SRM, then they can better practice efficiencies to help you meet your goals. Look for a supplier that sees the same value as you do in the relationship.

"Building trust requires time, patience and commitment of resources," Joe Williamson, Senior Director of Global Sales and Customer Operations of Kent Elastomer Products. "It cannot be a one-way street and does not happen overnight. We have driven for a more mutually visible relationship with all customers and continue with that approach – one where we are part of a pipeline of opportunities and one where customers realize efficiency gains over time. This is the win-win reality of many of our top customers. This is our model."

The Risks of NOT Knowing Your Supplier

A report developed by the business advisory Ernst and Young, “Don’t Let Your Supplier Take You Down,” urges procurement decision makers to recognize the increasing role they play in legal and regulatory guidelines that facilitate transparency. In other words, if you are a U.S. company, you’re subject to FCPA (Foreign Corrupt Practices Act) compliance, a U.S. federal law with its major provision that prohibits bribery of foreign officials.

The report spells out the danger: “To truly address the risk landscape, procurement needs to understand the customer service, operational, financial, technology business and ethical practices of all the suppliers with whom the organization does business globally.” In addition to suffering the consequences of late deliveries, the lack of capabilities, and non-compliance to service level agreements (SLAs), the report also points out how an unvetted supplier, committing bribery, can drag you and your business into SEC and U.S. Department of Justice investigations that can lead to fines in the millions of dollars.

Always be able to vouch for the character and honesty of your supplier. This is rapidly becoming the new best practice and today’s most promising and successful leaders are energetically embracing a partnership approach to procurement that is paying off with positive impact and great results.

Endnotes

Engel, Bob. “Procurement: 10 best practices you should be doing now.” CSMP’s Supply Chain Quarterly. Retrieved from <http://www.supplychainquarterly.com/topics/Procurement/scq201101bestpractices/>

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About Kent Elastomer Products

Kent Elastomer Products, Inc. (KEP), a subsidiary of Meridian Industries, Inc., was founded in 1960 and is a leading U.S. solutions provider for the global medical market, as well as dental, food and beverage, sports/recreation, laboratory, and industrial markets worldwide.

KEP is one of the world's largest manufacturers of precision-engineered, natural rubber latex and thermoplastic tubing. The company emphasizes continuous improvement, lean leadership training and communication. We stand alone as the only manufacturer of latex tubing in the United States.

Our headquarters, latex and custom-dip operations are located in Kent, Ohio. Extrusion operations are located in Mogadore, Ohio. Assembly, quality and shipping operation are located in Winesburg, Ohio.

Kent Elastomer Products publishes *Leader Views*, examining the best practices in global competition, lean manufacturing, sustainability and high quality values in production and services. It is available at KentElastomer.com.