

Strategies for Successful Procurement Partnerships
Part 2 of a 4-part series

Know Your Supplier

How to Assess a Good Partner

KEY TAKEAWAYS

Procurement Comes of Age – Be Ahead of the Competition

- Manage suppliers that share your company's values.
- Discover the right digital tools to empower SRM and assess suppliers.

Evaluating and Consolidating

- Choose technology and processes to evaluate suppliers.
- Develop criteria to discover additional capabilities and prune supplier lists.

Building Supplier Relationships

- Build an effective onboarding portal.
- Maintain an active, two-way relationship.



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"If procurement doesn't love suppliers – who will?"

-Jean-Yves Rotte-Geoffroy, CPO of GlaxoSmithKline (GSK)

Good question. This second of my four-part series on procurement best practices focuses on how to form a productive partnership with suppliers – including how to invite stakeholders across your business to participate in developing a common set of best practices. The more your colleagues love the suppliers – the more they will passionately participate in a winning strategy that YOU lead and execute.

A successful procurement process is more sophisticated than just settling for the lowest supplier bid – tempting as that may be. GSK Chief Procurement Officer Jean-Yves Rotte-Geoffroy captured it best with these words at the EcoVadis Sustain 2016 Conference in Paris: “Society, media, consumers, employees, regulators...everybody is holding large companies accountable for their management of resources – internal and external. We are responsible for managing our suppliers and making sure they share our values and they are compliant for the business ethics that we represent.”

Those words throw down this gauntlet: **Procurement must lead the way** in finding and building strong, mutually beneficial relationships with suppliers that satisfy all these demands.

Pounce on This Moment to Build Supplier Relationships

The SRM and the science of procurement is relatively new. Procurement thought leaders recognize its origins in a 1983 Harvard Business Review article entitled “Purchasing Must Become Supply Management.” It was written by Peter Kraljic, a consultant for McKinsey and Company, a worldwide management firm.

Kraljic contends Supply Management is not a department, it’s a philosophy. He proposes that purchasing should be bigger than any one office and take on a larger strategic role.

Since then, top-of-their-game procurement leaders have turned away from a siloed, narrow view of their craft. Now they take a more flexible and dynamic approach to building strong supplier partnerships across the supply chain that help them deliver results that meet many goals across their business.

Now, more than ever, great procurement leadership makes decisions that can improve quality assurance, compliance, sustainability and corporate respectability.

Recognizing procurement’s importance is one thing. Establishing it is another. These ideas will help you know your supplier and build the Supplier Relationship Management (SRM) processes to support your company’s overall mission:

- 1. Find** the right tools and processes to recognize great supplier partnerships
- 2. Evaluate** (and consolidate) suppliers to a great supplier team
- 3. Build** stronger partnerships

Find the Right Tools and You’ll Find Great Supplier Partners

Peter Kraljic’s abstract theories in 1983 are completely actionable now that processes have been introduced into the business climate. Plus, procurement decision makers demand digital – and a growing number of digital tools are available. One digital solution was developed from the inside.

Lars Kuch Pedersen was the Procurement Director at Wolseley, the world’s largest plumbing products distributor. He was frustrated about the limited data he had to assess Wolseley suppliers which spanned the globe.

So he invented a solution – a cloud-based platform called Lean Linking. The service integrates with clients’ systems and allows procurement and other stakeholders to organize data, accept feedback and perform 360 reviews.

In a Future Procurement podcast in 2017, Pederson told host Robert Freeman that in larger companies, “There are many people interacting with suppliers. Some people are happy with the supplier. Others are dissatisfied. They can give very mixed signals to the supplier.” The right tool synthesizes all the stakeholder feedback so that procurement curates the data with clarity and enables confident, big picture decisions – including accuracy on supplier scorecards.

Lean Linking is just one of many digital solutions that make it more manageable for procurement leaders to receive input across one company, especially for organizations that span many locations and time zones.

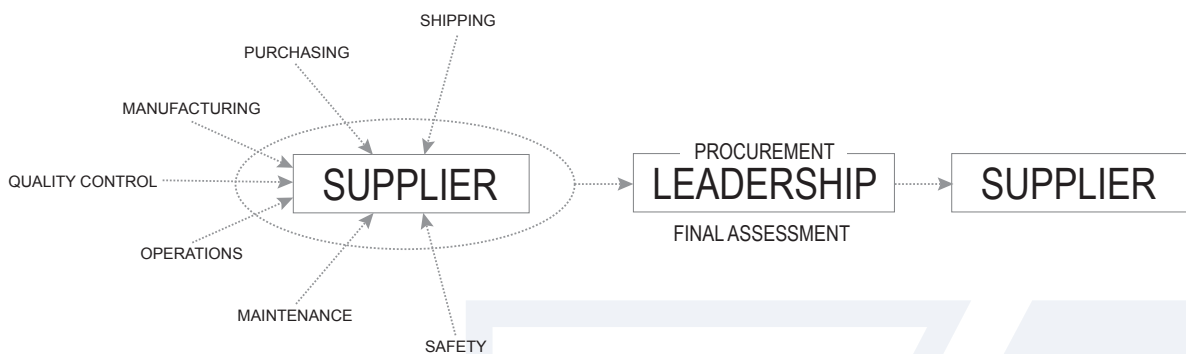


Figure 1 – Tools help all stakeholders do 360° reviews that empower procurement to weigh the results and deliver a final supplier scorecard. Procurement is empowered by feedback from all stakeholders but still controls the supplier relationship.

Digital Tools Help Assess Supplier Partnerships

Nothing replaces the art of reaching out to build strong, person-to-person relationships with key people in organizations you respect. Factor in turnover and ever-changing org charts and you always have to maintain your contacts and make new ones. But technology can help assess and strengthen your partnerships. IDC MarketScope is the information and communication technology (ICT) industry’s premier vendor analyst, providing in-depth reviews of ICT vendors across industries.

In January of 2018, IDC MarketScape released its first evaluation of digital solutions for procurement, reviewed thirteen vendors in the Worldwide SaaS and Cloud-Enabled as top procurement software for:

- **Measurable business value** – high return on investment, benchmarking and real-time actionable analytics
- **Unified cloud pattern** – configurable without IT or consulting
- **Rapid adoption rates** – ability to learn once and know everywhere within the system and 100% mobile platform

Development of all these new digital tools for procurement “has improved the supply base optimization, supplier visibility and risk management, and supplier relationship management,” IDC MarketScape states.

Take time to explore your options to determine the digital tool that addresses your priorities as you segment, assess and consolidate your supplier pool.

Evaluate Your Suppliers

Henry Ford famously said, “Nothing is particularly hard if you divide it into small jobs.” The same goes for putting SRM into practice. One of your first tasks will be to segment and assess your suppliers.

Your company’s suppliers are all important. But they do not all carry the same weight. Some are transactional. Others rise to the level of strategic partner.

Assess the risks associated with each one. Jonathan Webb heads Strategy Research at Procurement Leaders, a firm providing market intelligence for procurement executives. Webb gives a great example of segmenting suppliers according to their impact on your company: Stationery supply costs and services will not likely make or break a company. Such a supplier is low risk. However, should Foxconn (the world’s largest contract maker of electronics best known for making iPhone and other Apple devices) suffer a shutdown, this creates a major risk to the operations of the big-name brands it supplies. “So closely intertwined are Foxconn’s and Apple’s fates, that they are considered to have a strategic alliance,” states Webb.

Consolidate Your Suppliers

Who are YOUR strategic partners? For the total answer, you must first assess suppliers to discover redundancies and other factors that will make you reconsider the relationship. This is good for your company, like pruning is good for a tree. The result is that you will have fewer but stronger third-party vendor relationships.

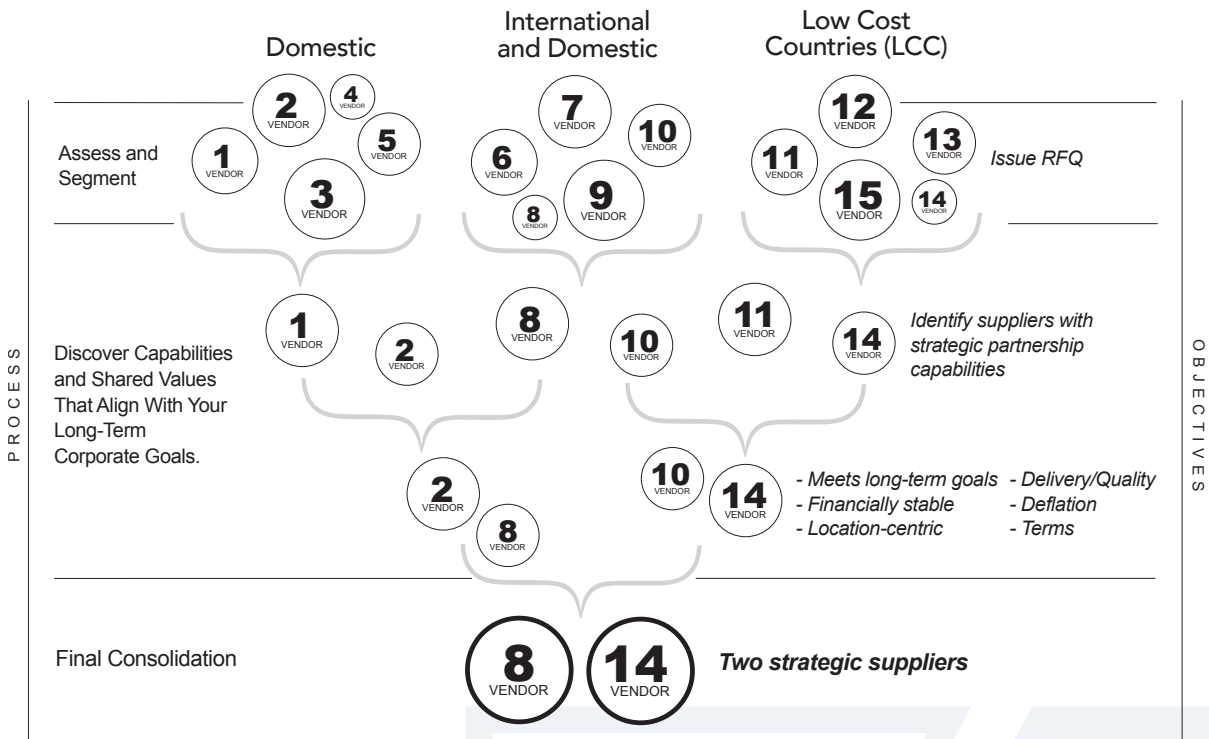


Figure 2 – Vendor consolidation reduces redundancies and challenges some suppliers to really show you their best.

While it will take time and effort, the results of a thorough supplier evaluation will benefit your company and improve your SRM. Seek out your internal partners for their thoughts on criteria. Plus, there are many other resources. The American Society for Quality (ASQ) – a global professional community that promotes quality tools, principles and practices in the workplace – recommends baseline criteria to assess suppliers (or consider new ones), such as:

- experience with the product/service to be purchased
- ability to meet regulatory requirements
- ability to meet capacity requirements – on time
- financial stability
- availability of tech support
- track record for performance improvement
- availability of testimonials and case studies from other customers
- evaluation of product samples

What to Look For in a Good Partner

One large medical OEM faced a problem with their line of urinary drainage bags when a supplier went out of business. It was impossible to get in contact with their former supplier.

Fortunately, they found a solution. Founded in 1960, Kent Elastomer Products (KEP) demonstrated the exact capabilities needed – and even improved the manufacturing process. KEP developed both a balloon compound and a water-based urethane. KEP also designed and custom-built machinery to produce the product.

On a supplier criteria checklist, companies like KEP will check off as positives in longevity, capabilities and willingness to grow with its customer. They also provide operational transparency, visibility on costs, open collaboration events, called Kaizens and long term partnership investments. Most companies will not expose themselves to their customers in this way. KEP lives by this with their Strategic Partnership Promise: Collaboration, Reliability, Trust and Transparency!

Use your criteria checklist to ask questions and review case studies for work supplier have done for others. This will help you identify the vendor relationships you can afford to let go. Start figuring out which vendors provide the most value. Segmenting and assessing your suppliers will uncover long hidden inefficiencies – especially if your company's been functioning in isolated silos. Hackett Group consultants Pierre Mitchell and Christopher Sawchuk assembled 10 years of data in their report, "The Benefits of Supplier Consolidation Extend Far Beyond Sourcing Savings." The elimination of redundant labor hours and duplicated billing, invoicing and other tasks adds up to great savings and efficiencies. "As more goods and services are sourced to third parties, companies invariably end up buying too many things from too many different suppliers," their report states.

Your Best Decisions Begin with Good Tools and Advice

Just as digital tools can help you assess vendor performance, you can also consult with group purchasing organizations (GPOs) for advice on aggregating purchasing volume. It takes time and planning, but it can be worth it just to discover exactly how much leverage you have to negotiate discounts. Mitchell and Sawchuk's report ("The Benefits of Supplier Consolidation Extend Far Beyond Sourcing Savings") confirms this. "The idea is to open up a broader market basket to suppliers and see what the market will bear, rather than bring predictions of what suppliers can or cannot do."

The benefits continue because consolidating vendors also reduces the internal work time required to maintain separate accounts. Fewer transactions shortens the paper trail considerably. Fewer vendors shrinks interaction time.

When the Dust Clears — The Best Suppliers Remain

Some vendors won't make the cut. The ones that do can look forward to an all-new, more collaborative and communicative relationship with you. This premier group of vendors will be worthy of your partnership. Their compliance, dedication to quality and service, professional integrity, and communication skills will be in sync with your own mission.

Build Stronger Relationships

Digital procurement tools help SRM efforts to assess and consolidate your supplier base. Additionally, it helps to streamline and strengthen the onboarding process because sharing knowledge and establishing expectations is smarter if it is done from outset instead of retrofitted.

Let's not overlook basic onboarding benefits:

- Introducing the ground rules in a new or renewed business relationship.
- Confirming communication expectations and preferred points of contact.
- Reviewing contracts in detail.
- Using experience to anticipate problems.

It's also the best time for various teams to make time to visit each other's facilities and to understand each other's IT systems.

A highly qualified supplier will match your excitement at this process. "We invite every new customer to visit our facilities," says Bob Oborn, president of Kent Elastomer Products. "Every time we bring someone in, they see the fruits of our continuous lean improvements, our culture of collaboration and openness."

He adds, "One of the great services we provide customers is our just-in-time delivery system called Kanban. We utilize our customers internal systems to adjust our inventory levels based on their always changing demands." The onboarding stage is the best time to take in all of the talent and capabilities your suppliers have to offer.

I recommend using a digital tool to establish a communication portal during the onboarding process. This is a login protected resource for all your suppliers to access literature, catalogues, applications, process documents and everything else. This portal also provides all your suppliers with a tool to update their company, contact, and information at any time.

Leverage the portal to track down, confirm and centralize all supplier information, communication and documentation. Gather everything in one place for easy access and record-keeping – from emails to downloadable literature to freight calculations and more.

Onboarding Portal Components

Your onboarding portal should be the source for all the materials your suppliers need and all the transactions you make with them.



Figure 2 – Great onboarding begins with a well-organized supplier portal. This central conduit is where all communications, transactions and exchanges of documentation can take place and be permanently stored.

Don't underestimate the importance of the online portal as a good starting point in a great supplier relationship. Good organization is good business. The Shelby Group, a global leader in platform-enabled procurement processes, takes a "measure-twice and cut-once" approach to the portal's function in onboarding and beyond: "Your supplier onboarding plan is an itinerary that charts the path to electronic enablement of your company's current and future suppliers."

Once the relationship is established, be attentive. Technology is important, but nothing will ever replace smart, intuitive open communication between people.

Strong Relationships Always Need the Human Touch

Don't lapse. Complacency can harm communication – and that can be costly, especially in hard times. Justin Brown reported in *Supply Chain Quarterly* that in the wake of the last economic downturn (the Great Recession), many OEMs reduced their capabilities in response to less demand. This slowdown wasn't communicated to suppliers. Suppliers overstocked their customers' parts. Poor communication can test the supplier relationship.

Stay in contact with suppliers. One way is to use measurement processes as communication tools. Frequent reviews of your partnership criteria, such as on-time delivery, payment cycles and fill rate, will keep communications strong and head off problems before they reach the critical review stage. If there are shortcomings, the ability (or inability) to repair them reveals a supplier's strength.

Find suppliers who feel the same way. A purchasing executive for a Fortune 500 global medical OEM was tasked with 12% cost reductions from all suppliers. Many said yes – which sends the wrong message. Namely, *our margin was too big anyway. And we're willing to cut our own gains.* The result – disrespect for the supplier and a contemptuous relationship.

One of those suppliers, Kent Elastomer Products (KEP), recognized the lose-lose of the task. Instead, KEP reenergized the relationship by proactively setting "lunch and learn" meetings with the OEM's directors of global strategic sourcing and global R&D. KEP intended to impress upon the customer that their capabilities extended well beyond "numbers on an invoice." They had many case studies that illustrated their willingness to partner with customers' product development and to be a proven strategic partner with strategies that reduce costs over time – not in a vacuum.

Look for *that* characteristic in a supplier.

"Remember that a customer-supplier relationship is a two-way street," writes Justin Brown, a principal for supply chain consultant Tompkins International. "The customer can teach the supplier that it needs to provide more than just the right product at the right price, and the supplier can teach the customer that it requires more information than a basic forecast if it is to support the customer's supply chain success."

Their stories and case studies can be backed up in simple ways:

If the relationship is strong, the two way street can be the road to success.

Endnotes

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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.