

PERSPECTIVE

Strategic Supplier Management
– *trump card to business growth and success*



- Avnish Chauhan

Abstract

Supplier management is an essential but most under-rated procurement activity. As the avenues for direct savings wither, procurement functions are looking at strategic supplier management for business value through partnership with suppliers. However, the challenge is lack of strategic supplier managers or procurement professionals who can effectively drive strategic supplier partnerships with time. Therefore, it is essential for procurement to focus, train and develop supplier management skills for professionals within the organizations, to take supplier management to the next level. This can be complex, as it would require a strategic shift in procurement thinking, leadership and management. This also means a paradigm shift in traditional supplier management practices by procurement professionals.

Introduction

Every procurement function consists of three major activities – sourcing, contract management and supplier management. Each of these activities (and sub activities within them) is very different and has its own important role to play within the organization. Historically, procurement functions have put in more efforts (resources, tools, management focus) on sourcing and contract management and focused less on supplier management. There could be multiple reasons however, some of the plausible reasons are faster tangible results from sourcing or contract

management and not so tangible returns from supplier management activities. With the changing business needs, newer supplier engagement models and limited value add from sourcing / contract management, procurement functions should clinch to strategic supplier management to deliver sustainable value and competitiveness to business. Ever more, organizations are adopting supplier management as a strategic tool to build better, faster, smarter products and services. This involves strategic collaboration and partnership between

the buyer and the supplier on multiple facades like technology, tools, processes, design, development, delivery, etc. The key elements of strategic supplier management are:

- Two-way, mutually beneficial relationship
- Strategic alignment to business
- Trust and accountability
- Well defined governance model

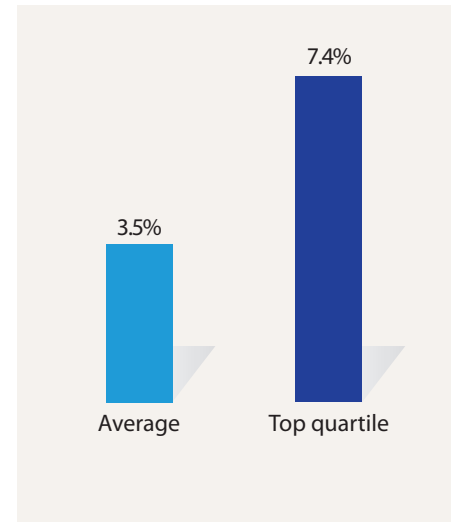


Strategic Supplier Management – The know how

Procurement functions across industries are at an inflection point with competitive markets, shrinking margins and exhausted savings opportunities. The direct savings opportunities through sourcing and negotiation activities with the suppliers are limited and not enough to sustain long term profitability and competitiveness of the organization. In such a scenario, strategic supplier management can help deliver immense sustainable value to the organizations by exercising supplier talent, innovation, capabilities, expertise and IP (Intellectual Property). In 2014, the average

contribution of supplier innovation efforts to companies' total revenue was 3.5%.⁽¹⁾

Strategic supplier management is also a fairly diversified and new domain compared to strategic sourcing or contract management. Hence, there is immense potential for the organizations to learn, improve and adopt the best supplier management practices to suit their business needs. It also helps to develop a cohesive relationship between the business and the supplier with fantastic results for the organization.



Source: The Hackett Group, 2014



Strategic Supplier Management – Challenges

Unlike sourcing or contract management, supplier management is quite under-rated, under-invested and under-utilized by the organizations. Very few successful organizations have been smart enough to recognize and adopt supplier management proactively and strategically.

Most organizations perceive supplier management as a downstream tactical activity without strategic value. The level of maturity or operational outlook of the suppliers in the procurement ecosystem has also not helped adoption of strategic supplier management. In the past, some

organizations have failed implementing strategic supplier management due to lost focus and awareness. Getting supplier managers with right skills/leadership to strategically drive supplier management has also been a challenge for the organizations.

Driving it Right

Organizations should bring a cultural change in the procurement ecosystem to adopt and practice supplier management effectively and strategically. This requires transformative shift from traditional supplier management approach which is prescriptive and non-inclusive to a sharing and collaborative approach.

Following three approaches will help organizations take the steps in right directions.

- Strategic focus
- Supplier collaboration
- Skills development



Strategic focus

Similar to sourcing or contract management, supplier management requires a strategic focus to deliver the anticipated outcome. This means supplier management has to be a part of core procurement strategy of an organization. This can be accomplished through setting up a dedicated supplier management group with clear objectives aligned to the procurement strategy. This group would design, develop and implement the supplier management strategy for the organization. A good starting point adopted by many organizations is segmenting the supply base into different levels. Supplier segmentation helps to channel the supplier management efforts efficiently and productively. Segmentation can be based on one or more criterion like supplier spend, sourcing from supplier, sole sourced or multiple sourced supplier, research and development partnership with the supplier, go-to-market relationship with the supplier etc.

Strategic focus will ensure continuous alignment between the supplier management strategy, procurement strategy and the business strategy of the organization. This will help to achieve the business objectives more efficiently and effectively.

Supplier collaboration

Collaboration with suppliers is the key to effective supplier management. This collaboration could be to design/develop a product and/or deliver service to business. Supplier managers have a vital role to play in facilitating and creating a collaborative environment between the supplier and the business. Therefore supplier managers should have a fair understanding of the business and the supplier capabilities. By virtue of their role, supplier managers have good insight and proximity to both business and supply side to facilitate and

drive effective collaboration. One of the best practices is to start small and go big once the POC (proof of concept) is successful.

Business and suppliers should look beyond their contract obligations and be trustworthy for a healthy partnership. Collaboration needs to span across all levels of the organization structure (strategic, program and operations) on buyer and the supplier side for optimum result. Supplier managers can facilitate this effectively by mapping and coordinating appropriately with their partners. The business stakeholders have a key stake in the development and delivery of holistic supplier management strategy.

Supplier collaboration helps business to tap on suppliers' expertise to complement or supplement its own capabilities, to become more competitive. Best-in-class procurement functions are effective at harnessing the intellectual capital of their suppliers to bring new and innovative solutions to realization, helping to influence the business strategy. This is enabled by maintaining a strong business relationship with key suppliers and working collaboratively to create customized and unique solutions. Even if breakthrough solutions are not identified, better collaboration often leads to cost savings, product improvements and cost sharing programs. Strategic supplier management being all-inclusive ensures integrated business value delivery.

Skills development

Possessing the right skills is paramount importance for strategic supplier management. Many organizations have often failed or under achieved their objectives because they do not have the right skills to leading the effort. As per Hackett report on procurement talent (2014), the largest gap between the skills considered important by business today and how well procurement organizations

measure up is Supplier Relationship Management. Also, the net demand for this skill is expected to grow by 43% in next 2-3 years (Skills and Talent Outlook, The Hackett Group, 2014).⁽²⁾

Supplier management is inherently cross-functional, and requires a good combination of commercial, functional and interpersonal skills. Softer skills around communication, listening, influencing and managing change are critical to developing strong and trusting relationships with the stakeholders. Supplier management trainings with focus on relationship building, influencing, collaboration, business partnering, strategic thinking and performance management also help to build and enhance supplier relationship skills. These trainings and skills differ from the traditional supplier management skills. Supplier managers often have to do away with traditional supplier management approach to be effective in the new paradigm. Similarly, suppliers at their end have to learn and embrace new collaboration/business partnering skills and move away from prescriptive order taking or short term approach to deliver sustainable value to the business.

Skilled supplier relationship managers can add immense value to business by facilitating effective collaboration between the business and the suppliers'. Supplier managers are the gateway to business as well as to the suppliers, hence possessing the right skills helps them to align strategically to business goals. Skilled supplier managers also enable a healthy relationship between the business and the suppliers by proactively managing commercial or contractual risks.



The Way Forward

Supplier management is a strategic and fastest growing domain in procurement. It has come a long way in last one decade from just a supplier performance monitoring activity to become a more strategic, collaborative and innovative function. More and more organizations are embarking on strategic supplier management to enhance business value through collaboration and innovation with suppliers and service providers. Suppliers see this as an excellent opportunity to develop long term relationships and value add to their clients.

Organizations have to train, develop and sustain skilled supplier management professionals to take advantage of this paradigm shift in buyer-supplier relationships. Organizations that race ahead will emerge winners in the new dynamic and collaborative world of business.

About the Author



Avnish Chauhan

Delivery Lead - Sourcing and Procurement Practice, Infosys BPO

Avnish has over 20 years of sourcing, procurement and project management experience in leading global organizations. He has held senior procurement leadership roles across industries like manufacturing, banking, technology and BPO. In his current role, Avnish is responsible for delivery and growth of sourcing and procurement services across multiple global accounts. Prior to joining Infosys, Avnish was Director Sourcing at UBS AG in Singapore.

Avnish has a Bachelor's degree in Chemical Engineering from Anna University, MBA from Faculty of Management Studies (FMS), Delhi University and Master's in Engineering Management from Portland State University, Oregon, USA.

For more information, contact infosysbpo@infosys.com



© 2016 Infosys Limited, Bangalore, India. All Rights Reserved. Infosys believes the information in this document is accurate as of its publication date; such information is subject to change without notice. Infosys acknowledges the proprietary rights of other companies to the trademarks, product names and such other intellectual property rights mentioned in this document. Except as expressly permitted, neither this documentation nor any part of it may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, printing, photocopying, recording or otherwise, without the prior permission of Infosys Limited and/ or any named intellectual property rights holders under this document.

Stay Connected    

