

Supplier Development

CIPS is expressing beliefs on supplier development as it is a key aspect of strategic purchasing and supply management.

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CIPS Positions on Practice

CIPS views, opinions and beliefs are stated throughout the document; however the broad practice statements which underpin the text are as follows:

- CIPS believes that before any decision is made to implement supplier development the organisation's corporate needs and objectives need to be established
- CIPS recommends that purchasing and supply management professionals should be able to identify and prioritise by means of an appropriate method, the reasons for embarking on a supplier development process such as improving a supplier's performance, reducing costs and resolving serious quality issues
- CIPS believes that it is not necessarily only the best suppliers which should be eligible for development programmes - each supplier should be assessed on the basis of individual merit and potential
- CIPS believes that there is no single, universally applicable approach to supplier development; each situation needs to be assessed on its own merits
- CIPS considers that supplier development projects should be capable of being assessed in terms of quantifiable business benefits
- CIPS believes that suppliers involved in any supplier development programme should be encouraged to review and develop their relationship with the buying organisation
- Supplier development is a two-way activity in that it should be thought of as a joint buyer/supplier development
- CIPS believes that purchasing and supply management professionals should possess expertise in supplier development; in particular they need to have the necessary interpersonal skills to be able to persuade colleagues and suppliers who may otherwise be reluctant to embark on a development programme
- CIPS considers that a purchasing and supply management professional needs to have the ability to decide when it is time to bring a development project to an end.

A Definition

Supplier development is the process of working with certain suppliers on a one-to-one basis to improve their performance for the benefit of the buying organisation. It is closely associated with supplier relationship management and partnering - two separate subjects on which CIPS has similar documents.

Reasons For Supplier Development

CIPS recommends that purchasing and supply management professionals should be able to identify sound reasons for embarking on supplier development process such as:

- improving supplier performance
- reducing costs
- resolving serious quality issues
- developing new routes to supply
- improving business alignment between the supplier and the buying organisation
- developing a product or service not currently available in the marketplace
- generating competition for a high price product or service dominating the marketplace

Supplier development should lead to improvements in the total added value from the supplier in question in terms of product or service offering, business processes and performance, improvements in lead times and delivery for instance.

What Might Supplier Development Involve?

There is no single approach to supplier development. Purchasing and supply management professionals must select the most appropriate approach to suit their relationship with the supplier that they have selected for development. There are different types of, and approaches to, supplier development that are appropriate for different supply markets.

Supplier development involves embracing supplier expertise and aligning it to the buying organisation's business need, and, where appropriate, vice versa. The objectives for development can be relatively minor such as slight adjustments in staffing levels or very substantial such as the appraisal and re-launch of an entire range of critical products.

A supplier development project might involve developing a supplier's business such as helping the supplier to evaluate and redesign their corporate strategy. The purpose of this might be to align the supplier very closely and on a long-term basis with the buying organisation in a strategic alliance or joint venture. Equally, there may be circumstances where it is more appropriate for the buying organisation to align its corporate strategy to that of the supplier. Whatever the form of the alignment, this process may be a highly resource-intensive exercise and involve for example, a steering group and various action teams each with action plans for allocated projects and formal reporting procedures against time-scales. Both organisations must share a mutual understanding, appreciation and desire to achieve the objectives of the supplier development project.

Such a project would involve the principles of change management and require visible commitment from both parties' top management teams with identifiable sponsors and champions of change. It is critical to involve people with vision, imagination and commitment; to keep these involved

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and to ensure the project is not damaged by a change in personnel. It is also important to ensure that there is a smooth decision-making process and that, where appropriate, those involved in the supplier development project from both organisations are empowered to make decisions.

Value management, in particular value analysis, is a key part of supplier development. Value analysis can be used to reduce the cost of a product or service without diminishing the operational value; other objectives might include reducing time to market, improving environmental performance or improving quality. Value engineering is another aspect of value management used in supplier development projects and is similar to value analysis but it takes place before a new product is finalised.

Another approach to supplier development is 'Reverse Marketing'; one example of which is where a buying organisation encourages a supplier(s) to enter a new market. This might, for instance, involve the supplier developing its operation or introducing a new range of products.

Pre-Requisites To Supplier Development

CIPS believes that a fundamental pre-requisite to supplier development, and indeed the development of any purchasing and supply management strategy, is that purchasing and supply management professionals analyse, evaluate and appreciate their own organisation's corporate objectives and business needs. The supplier development projects which are undertaken must be in support of the purchasing and supply management strategy which, in turn, supports the organisational strategy.

Supplier development requires key technical purchasing skills as well as contract management and project management skills. It also demands excellent interpersonal skills as it is an effective way of opening up communication between the buying organisation and the supplier.

Interpersonal skills are necessary in order to "sell" the idea behind the development project both internally with colleagues and to the supplier, and then to work effectively with all those involved irrespective of their status in either organisation. Influencing skills are therefore of fundamental importance.

One of the key interpersonal skills required is empathy i.e. the ability to appreciate others' perspectives. For example, the buying organisation must appreciate the supplier's position and the impact on their business of this development. In some cases, their other customers might perceive that they are being neglected as a consequence of so much resource being channelled into a supplier development programme of another customer, which may also be one of their competitors.

Selecting Suppliers For Development

CIPS advocates studying the supply base and evaluating the extent to which it meets the needs of the organisation. Suppliers of key supplies and services should be rated according to their current performance and their ideal, or preferred, performance as well as compared to other suppliers. This evaluation should also cover the relationship between the two parties e.g. the style of relationship and how this compares to the preferred type of relationship. CIPS believes that these processes will encourage competition between suppliers especially if it leads to a supplier accreditation such as 'Best of Breed'. It would be

ideal if the relationship between these suppliers and the buying organisation was managed on a key account basis i.e. an individual is given responsibility to manage a number of contracts. CIPS also believes that those suppliers being developed should be encouraged and supported to 'rate' their relationship with the buying organisation and to develop it appropriately.

Before selecting suppliers for development, the purchasing and supply management professional must first have identified a reason and an understanding of why supplier development should be undertaken and what it involves. The selection of suppliers for development should be dependent on:

- category strategy
- scale of value/improvement opportunity
- cost, complexity and duration of value attainment
- supplier co-operation

There are a number of methodologies for prioritising which suppliers are most suitable for development including a range of portfolio analysis techniques. CIPS suggests that a reasonable way to begin would be to identify those products, goods and services which are procured from critical and strategic suppliers and to decide how these should be improved. It may simply be a case of re-sourcing or re-tendering a new contract or moving those goods into another market.

CIPS believes that selecting the best supplier for development may not always be the automatic choice; frequently it is the 'less than best' suppliers which are most appropriate for development. Supplier development is normally undertaken with existing suppliers that can be, and agree to being, improved. The supplier's performance against agreed criteria must be measured in order to identify the scope for development at the outset and, once the development process has started, to monitor and manage improvement.

As supplier development can be a resource-intensive process, it should be undertaken only with selected suppliers. CIPS suggests that it should only be undertaken with those suppliers from which real business benefit can be derived.

Supplier development can be a one-off project as well as ongoing activity that may take some years to come to fruition. Suppliers can be categorised in respect of supplier development in three ways; they are:

- being developed
- on hold as a potential for development or
- identified as not being worth the investment of development

Supplier development is a two-way process in that it should be thought of as joint buyer/supplier development activity.

Supplier Positioning

Some suppliers may be resistant to being developed; this is usually a function of their position in the marketplace and the way in which they perceive, and therefore 'position', the buying organisation. This is why purchasing and supply management professionals embarking on supplier development require excellent interpersonal skills e.g. influencing skills.



Supplier Development

Purchasing and supply management professionals should always be aware of the way in which a key supplier positions their buying organisation. Incentives need to be given to suppliers to encourage their commitment to supplier development, such as a reward of shared benefits or 'preferred supplier' status.

In many cases, the development of the supplier will be of benefit to the supplier's other customers, some of which may be the buying organisation's competition. This in itself may be an incentive for the supplier to participate in a supplier development project i.e. they can improve relationships with all their customers as a consequence. This may not matter if the development is in terms of improved service, greater quality, value add and management information for instance. However, where for example, the supplier's product has been developed to meet a particular competitive advantage of the buying organisation, the purchasing and supply management professional should consider the implications of this at the outset.

CIPS suggests that the purchasing and supply management professional should develop a chart along the lines illustrated below which can be used by the buying organisation and the supplier selected for development in order to identify the extent of the development project.

The chart could be as simple or as complex as required; the purpose is to identify what has been agreed in terms of outputs or deliverables; which party is responsible for doing what (ideally with an accountable person identified) and when; and an appropriate apportionment of effort, risk and reward. It is useful to identify the risks in advance and allocate these appropriately. The chart could then be used to monitor progress and manage the project. Equally, a chart could be developed to assist the buying organisation in deciding whether or not a particular supplier should be developed and might comprise a simple yes/no checklist or list of facts to be completed. For example: such a chart might include the level of expenditure (top 20% of expenditure yes/no); level of risk (high/ medium/low) and so on, as deemed appropriate.

Conclusion

Purchasing and supply management professionals should determine when the process of developing a supplier can be brought to an end as objectives and targets have been delivered and measured. In many cases, the results of the development may be simply a 'quick fix' or at the other extreme it may involve continual improvement and step change.

CIPS believes that whatever approach to supplier development is employed, purchasing and supply management professionals should ensure quantifiable and measurable results that lead to business benefits. Supplier development is, therefore, a significant opportunity to raise the profile of purchasing and supply management in an organisation and should be utilised by all purchasing and supply management professionals.