

Supplier and Supply Chain Relationships

Course: Production Management and Logistic Systems [10592713]

Economia e management (Latina Campus)

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Supplier and Supply Chain Relationships

Section A Introduction

Section B Key Processes:

- Cultivate supplier relationships.
 - Set up supplier development, improvement, and management programs.
 - Define measurement needs and KPIs with supplier.
- Measure supplier performance (quality cases, claims) and give feedback and remediation plan.

Section B Topics:

- Supplier Relationships and Segmentation
- Strategic Sourcing and Alliances
- Supplier Performance
- Supply Chain Relationship Management

Supplier Relationships and Segmentation

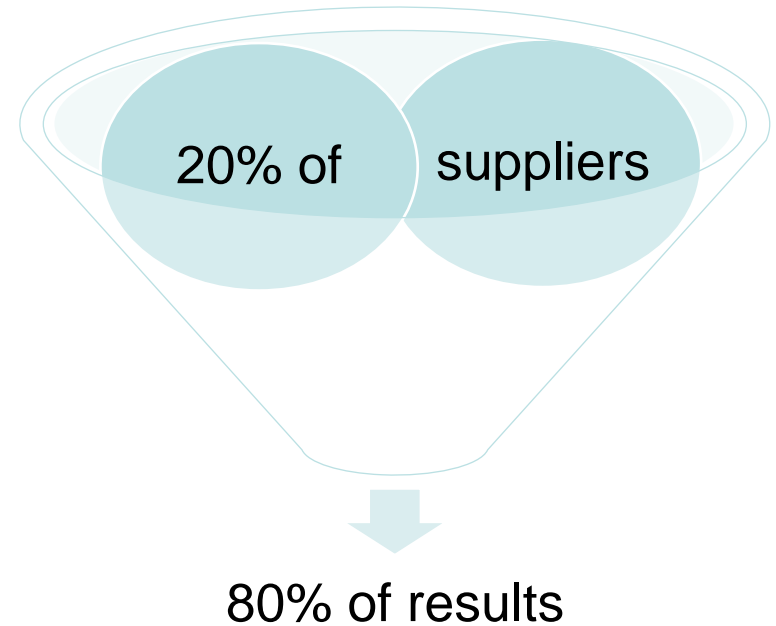
Supplier Relationship Management (SRM)

- Comprehensive approach to supplier interactions.
- Goal is to streamline organization–supplier processes and make them more effective.
- Includes e-procurement.
- Methodology will assist in:
 - Reducing procurement and excess inventory costs
 - Supporting a customer-focused business (customization and quality in desired time frame)
 - Continuously improving supply processes.

Supplier Relationships and Segmentation

Supplier Segmentation Methods

- Product or service type
- Ideal relationship type
- Supplier capabilities
- Customization versus standardization
- Level of innovation
- Lead times



Supplier Relationships and Segmentation

Supplier Co-Location

- Typically locates a supplier or multiple suppliers within a single location.
- May bring together people or groups in related roles for product and process innovation.
- Level of integration can vary.
- May be market-driven or may involve exploiting technology-based products and services.

Supplier Relationships and Segmentation

Benefits of SRM Software

- Compatibility: works with most ERP systems.
- Sourcing process improvements:
 - Simplified, repeatable sourcing reduces cycle time and cost.
 - Comparison easy: price and criteria visible.
- Standardize purchasing decisions.
- Communication improvements:
 - Faster, sometimes fully automated.
 - Real-time information.

Supplier Relationships and Segmentation

Components of an SRM System

- Strategic sourcing/RFQ/ITT submission and analysis
- Procurement via trade exchanges or auctions
- Collaborative product design and planning
- Direct links for purchasing and supplier scheduling
- Catalog management
- Supplier databases and rating systems

Web-enabled SRM

Interfaces

- Internal
- External supplier

SRM analytics

SRM procurement

SRM services

Strategic Sourcing and Alliances

Strategic Sourcing Using SRM

Strategic Sourcing

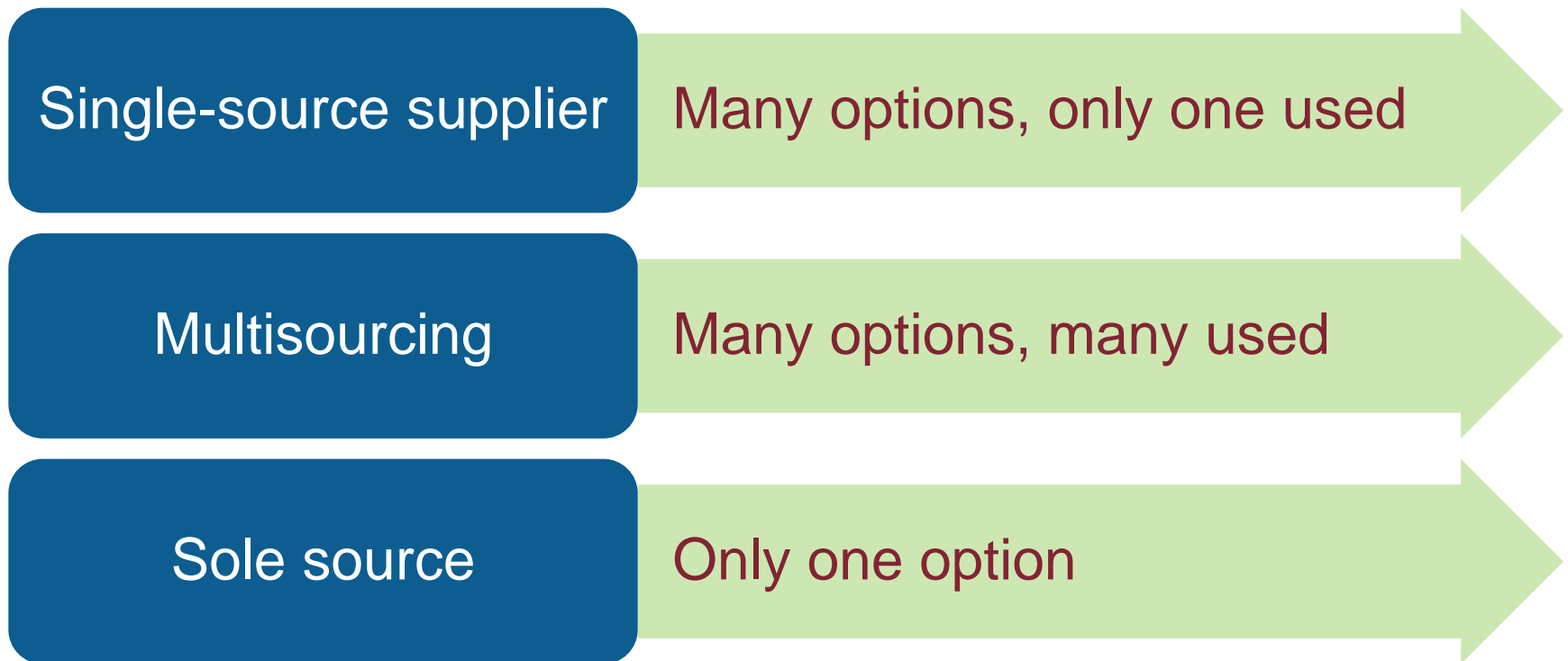
- Comprehensive approach for locating and sourcing key material suppliers
- Focus on development of long-term relationships with trading partners who can help the purchaser meet profit and customer satisfaction goals

Tactical Buying

- Purchasing process focused on transactions and nonstrategic material buying
 - Stable, limited fluctuations
 - Defined standard specifications
 - Noncritical to production
 - No delivery issues
 - Reliable quality

Strategic Sourcing and Alliances

Consolidating Purchasing Power at a Risk



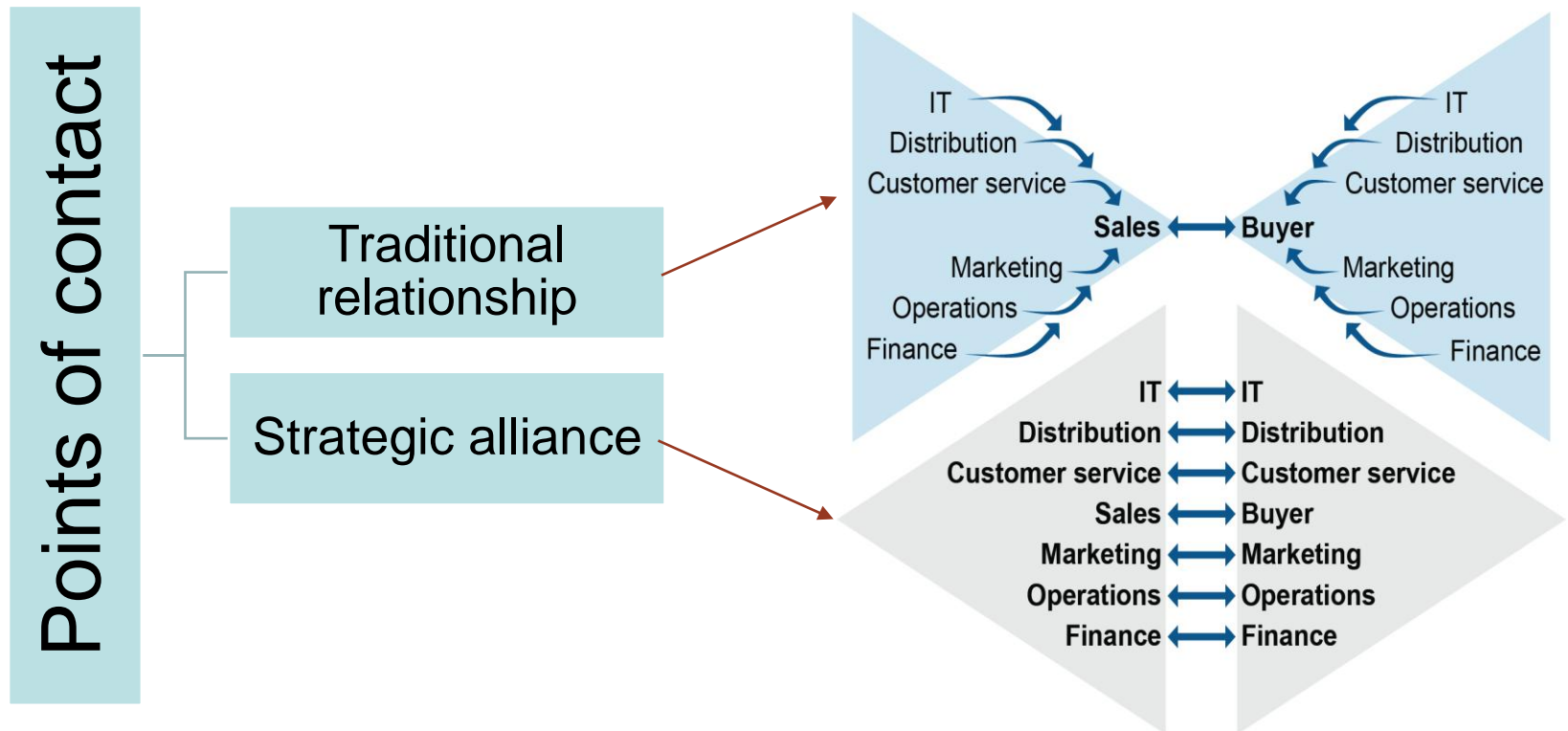
Strategic Sourcing and Alliances

Strategic Sourcing and SRM vs. Traditional Purchasing

	Traditional purchasing	
Focus	Purchase price or landed cost	Total cost of ownership
	Transactional	Collaborative
Business boundaries	Never crosses	Opportunities for realigned and collaborative processes, data flow, and workflow
Technology	Benefits from technology	Applies to higher degree
Visibility	Internal	Entire supply chain

Strategic Sourcing and Alliances

Traditional Relationship vs. Strategic Alliance



Strategic Sourcing and Alliances

Why Some Alliances Fail and Some Succeed

Effective Relationships

- Integration
- Institutionalization
- Interdependence
- Individual excellence
- Information
- Investment
- Importance
- Integrity

Failure Issues

- Immature IT
- Uncertain marketplace
- Shift in corporate strategy
- Treat like merger
- Poor monitoring
- Inadequate resources
- Poor management
- Lack of trust

Strategic Sourcing and Alliances

Forming Strategic Alliances

Proactive Reasons

- Add value to products.
- Enable strategic growth.
- Increase market access.
- Strengthen operations.
- Increase organizational expertise.
- Build organizational skills.
- Enhance financial strength.

Factors to Consider

- Strategic importance
- Number of suppliers
- Complexity
- Uncertainty
- New relationships

Strategic Sourcing and Alliances

Commitment Required for a Successful Alliance

To Change

- Change is constant, inevitable.
- Reinvent self and alliance incrementally.

To relationship

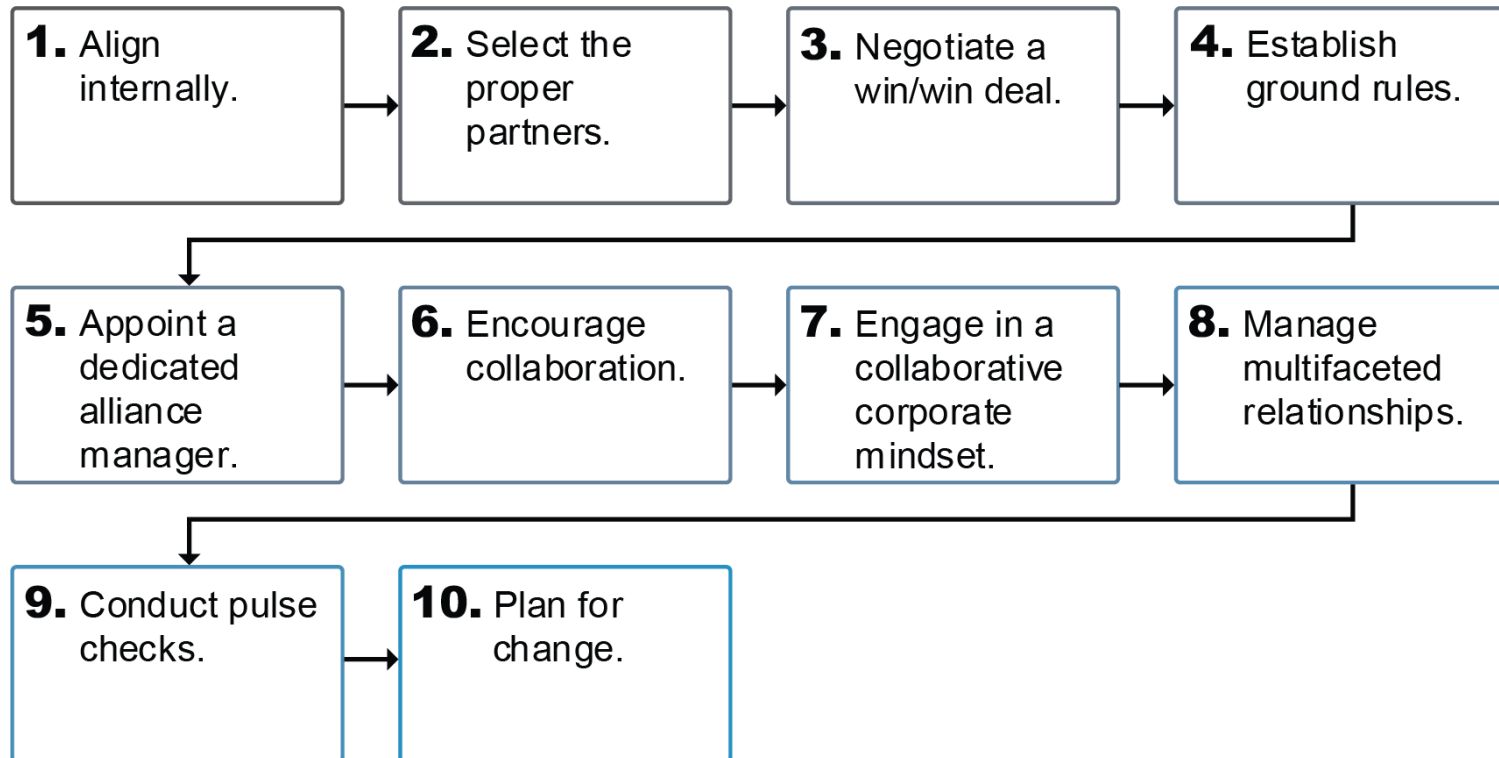
- Maximum commitment. (New alliances cost more than existing ones.)
- Common models, structured methods, and decision-making structure to drive efficiency and effectiveness.

To communication

- Dynamic interaction at all points and mutual decisions.

Strategic Sourcing and Alliances

Steps to Successful Alliances



Supplier Performance

Supplier Performance Measurement

Performance Measurement Systems	Verify Suppliers	Best Practices
<ul style="list-style-type: none">• Track performance of all suppliers to some extent.• Track critical data.• Collaborate on measures, reporting, improvements.• Automate supplier KPIs.• Standardize measures.	<ul style="list-style-type: none">• Promptness, flexibility, consistency• Reliability• Commitment to QA• Financial stability• Technology investment	<ul style="list-style-type: none">• Set goals, incentives.• Apply SCOR DS metrics to suppliers.• Interview users of supplier's products for internal customer satisfaction.• Communicate level of satisfaction.

Supplier Performance

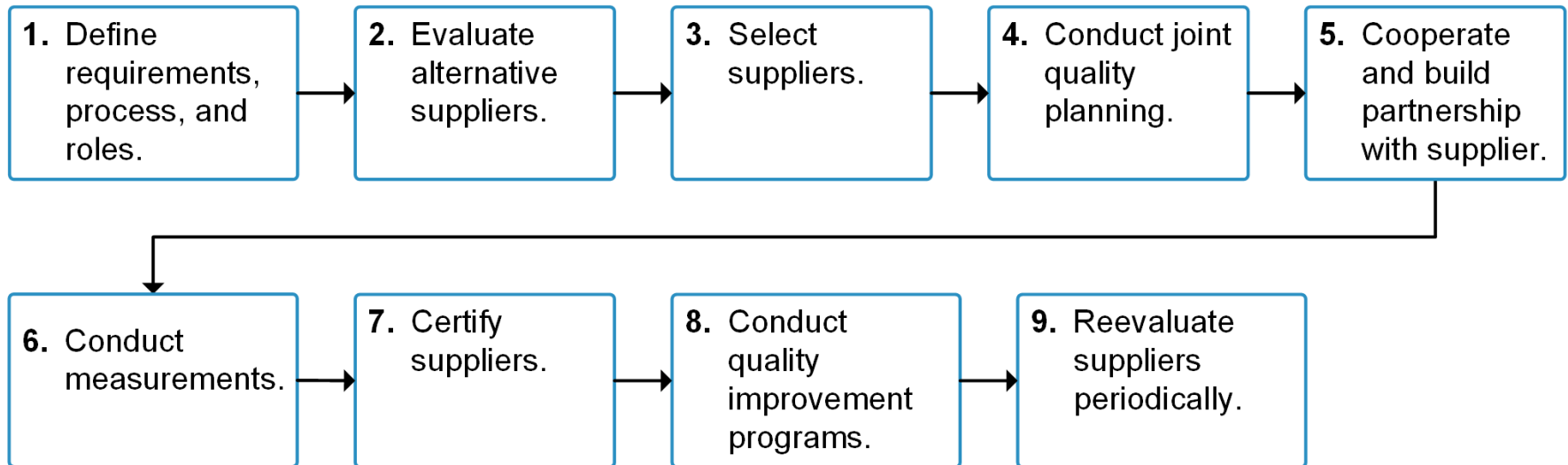
Supplier Certification Benefits

Customer Benefits	Supplier Benefits
<ul style="list-style-type: none">• More efficient, safer, and cleaner products• Safeguards consumers• Extend CSR to suppliers• Selection and performance evaluation• Consolidate suppliers• Trust suppliers/share information	<ul style="list-style-type: none">• Access to wider market• Market capabilities• Higher quality lowers costs• Learn intermediate customers' needs• Learn best practices• Single source provider• Shows commitment

Supplier Performance

The Certification Process

Complete and thorough understanding of third-party standard or organization's needs.



Supplier Performance

Supplier Rating Systems

Rating Systems

- Use data from SC information systems.
- Can be ongoing, real-time rating based on:
 - Conformation rates
 - Number of floor failure events
 - Amounts of conditionally accepted materials
 - Time line performance.

Communicating Ratings

- Suppliers know ratings and when they trigger corrective action.
- Automated systems can allow them to self-correct.
- Scorecards, performance alerts, surveys.

Supplier Performance

Performance Report

- Quality rating = A–

Date: January Y1			Supplier No. 100 Acme Mfg. Co.				Purchase Order No. 100			
Product	Qty Ordered	Qty Rec'd	Qty Rejected	UM	Std Cost	Purchase Price	Purchase Price Variance	Date Due	Date Rec'd	Variance
Wheels	250	250	0	ea	60.00	62.00	2.00	1/5	1/7	+2
Rims	250	248	2	ea	30.00	29.00	<1.00>	1/5	1/5	0
Spokes	5,000	5,012	0	ea	5.00	5.00	0	1/5	1/5	0
Reliability		Quality		Cost			Lead time			

Supplier Performance

Controlling Errors

- Compliance scanning and package label control.
- Rules minimizing rejected shipments, for example:
 - “Do not ship unless it is included in the most recent version of PO release.”
 - “Do not ship +/- days outside of delivery request date.”
 - “Do not ship +/- amount outside of PO.”
 - “Do not ship +/- amount outside of PO total.”
- Recovery strategies after rush orders, delays, slowdowns in customs.

Supply Chain Relationship Management

Interrelationship Between CRM and SRM

- **Goal:** All parties consider needs of not only own intermediate customers but also needs of their suppliers, their suppliers' suppliers, etc.
- **Mirror image:** Each focus on developing relationships.

SRM

- Greater internal and external integration with select group of key suppliers



CRM

- Greater focus on customer

Supply Chain Relationship Management

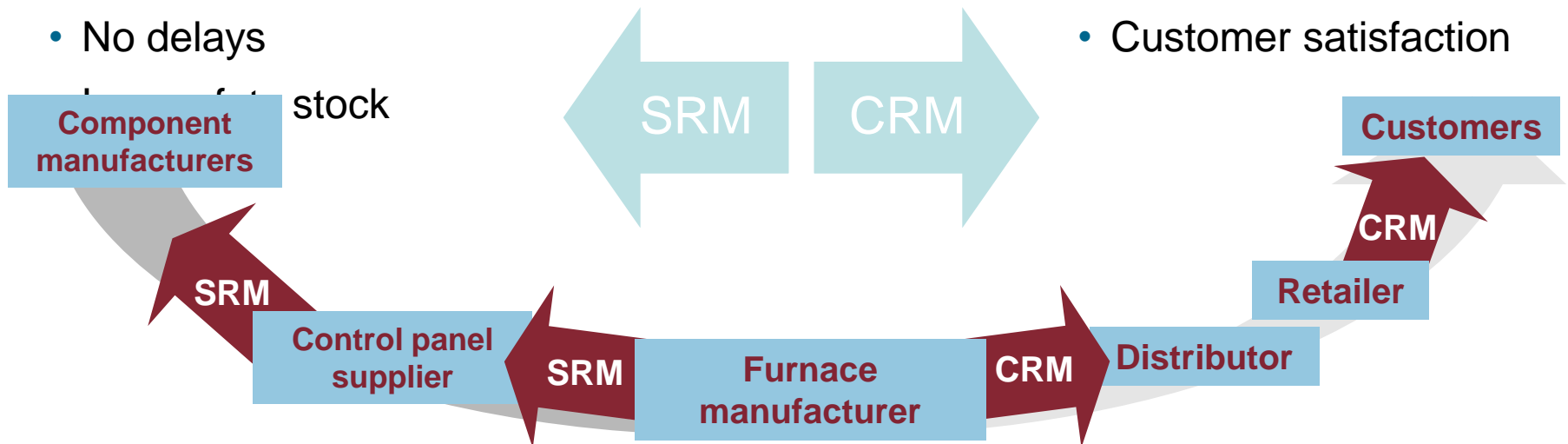
CRM and SRM Collaboration Case Study

SRM

- Parts integrated
- Few failures
- No delays

CRM

- How to present
- Installation service
- Customer satisfaction



Supply Chain Relationship Management

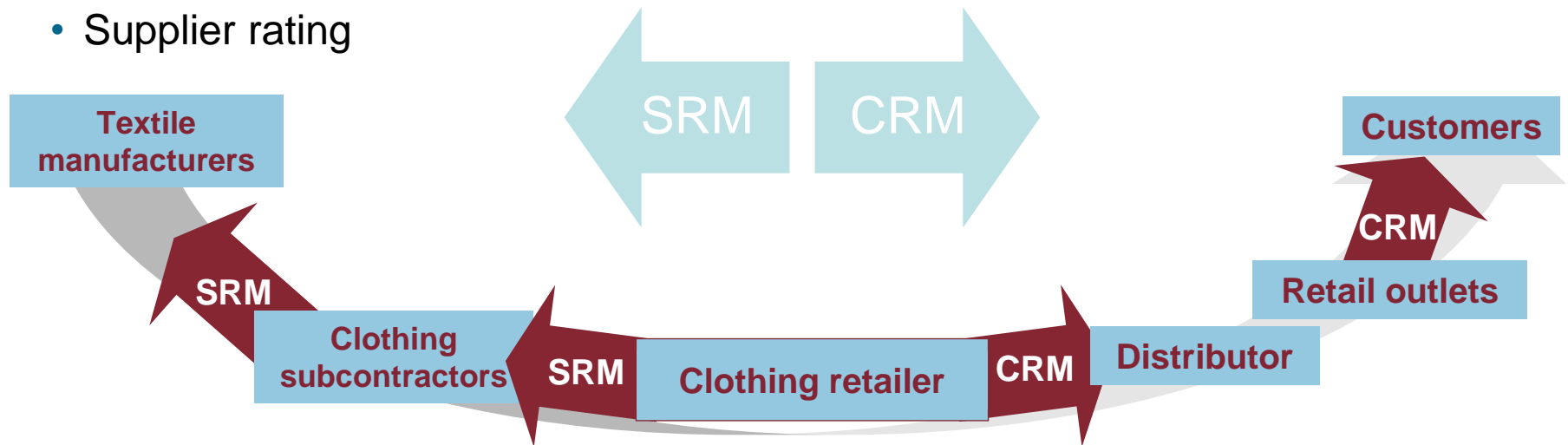
Case Study: Clothing Retailer

SRM

- Visibility
- Time to market
- Low cost
- Supplier rating

CRM

- How to present/price
- “Hot” fashion trends
- Regional differences



Supply Chain Relationship Management

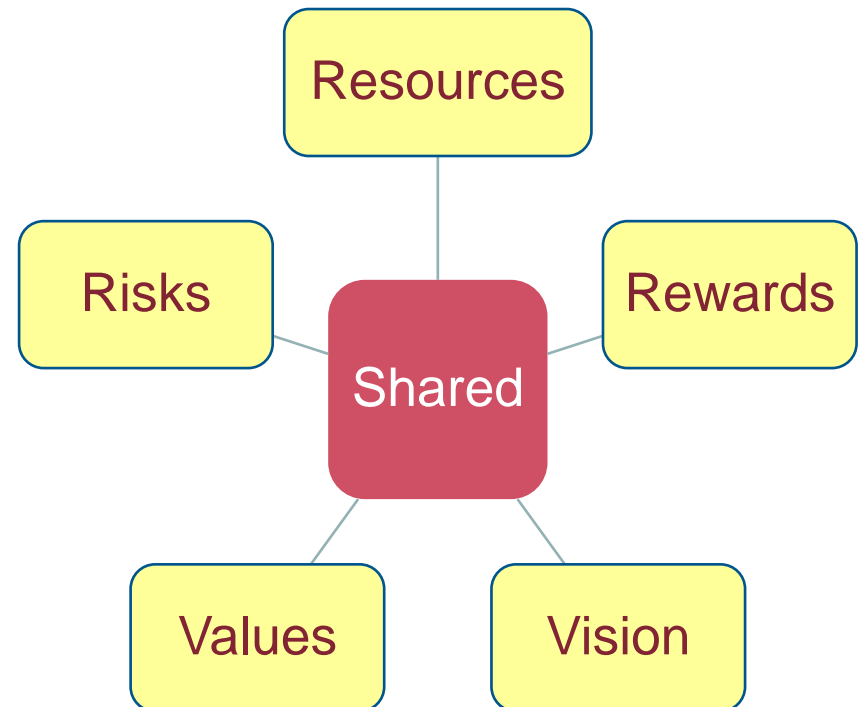
Developing Collaboration: Virtual Organizations

- Short-term alliances in potentially long-term relationship to design, produce, and distribute product
- Mutual values
- Acts as single entity
- Enabling virtual organizations
 - Use POS to replace push with pull.
 - Share data with suppliers to build trust.
 - Consult with partners on product design.
 - Constantly adapt flexible relationships.
 - Empower individuals, disaggregate control.

Supply Chain Relationship Management

Requirements for Success

- Add value
- Improve market access
- Strengthen operations
- Add technological strength
- Enhance strategic growth
- Share insights and learning
- Increase financial strength
- Improve trust and communication



Supply Chain Relationship Management

Initiate Management Tasks

1) Set relationship goals and action plans to achieve them.

2) Define roles for each partner, avoiding redundancy.

3) Design contracts and a process for resolving conflicts.

4) Stay involved after completing design.

Supply Chain Relationship Management

Barriers to Collaboration

- Suboptimization
- Misaligned incentives
- Working with competitors
- Weak partner bottlenecks
- Regulations and legal issues
- Technology barriers
- Power-based relationships
- Underestimated benefits
- Culture conflicts

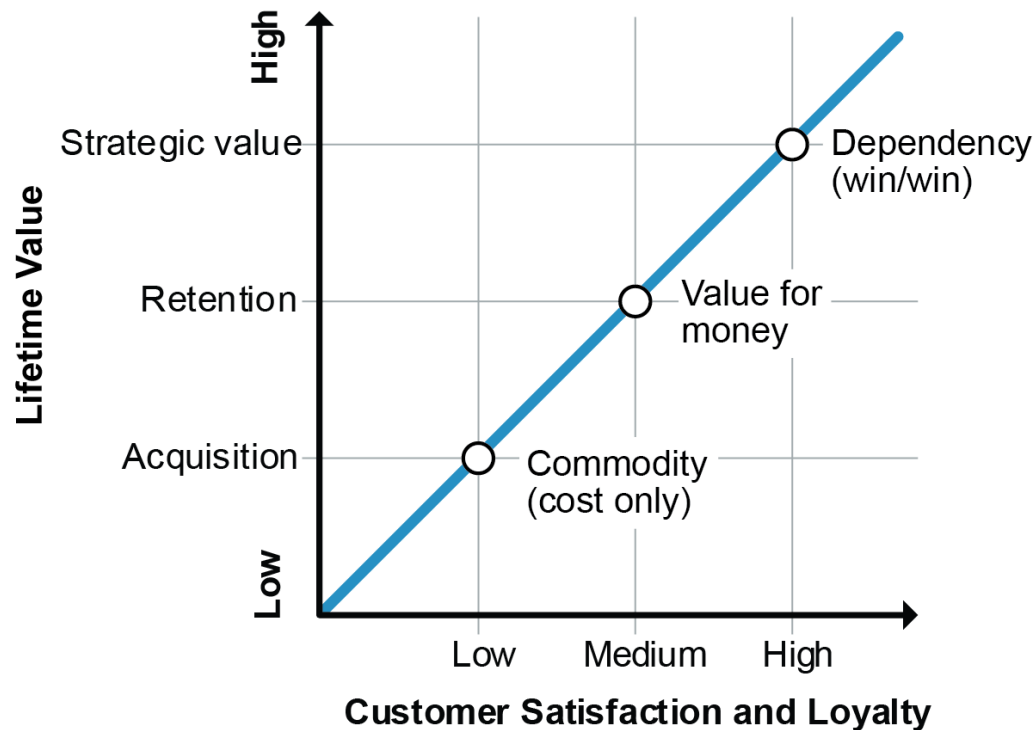
Supply Chain Relationship Management

Levels of Communication

Level/Type of Communication	Degree of Collaboration	Length of Relationship
Transactional with information sharing	Each partner has access to single data source.	Generally medium term
Shared processes and partnership	Partners collaborate in specific processes and share knowledge.	Longer term
Linked competitive vision and strategic alliance	Partners function as a virtual entity, even collaborating on strategy.	Long term, possibly decades
Mergers/acquisitions	Complete backward and forward integration (in theory).	Long term (if successful)

Supply Chain Relationship Management

Evolving Relationship with Lifetime Customers



Supply Chain Relationship Management

Creating and Maintaining a Customer-Centric Business



Supply Chain Relationship Management

Benefits of Collaborating with Customers

Benefits for Customers

- Tailored experience
- Higher satisfaction
- Improved relationships

Benefits for Organization

- Increased customer retention
- Increased profits
- Better customer visibility
- Better monitoring/control
- Improved relationships

Supply Chain Relationship Management

Identify the Purpose of Communication

- What does your audience need?
- How does your communication fill this need?
- How can you make the benefits of the presentation clear to the audience?

Executives

- Just enough to make a wise decision

Finance

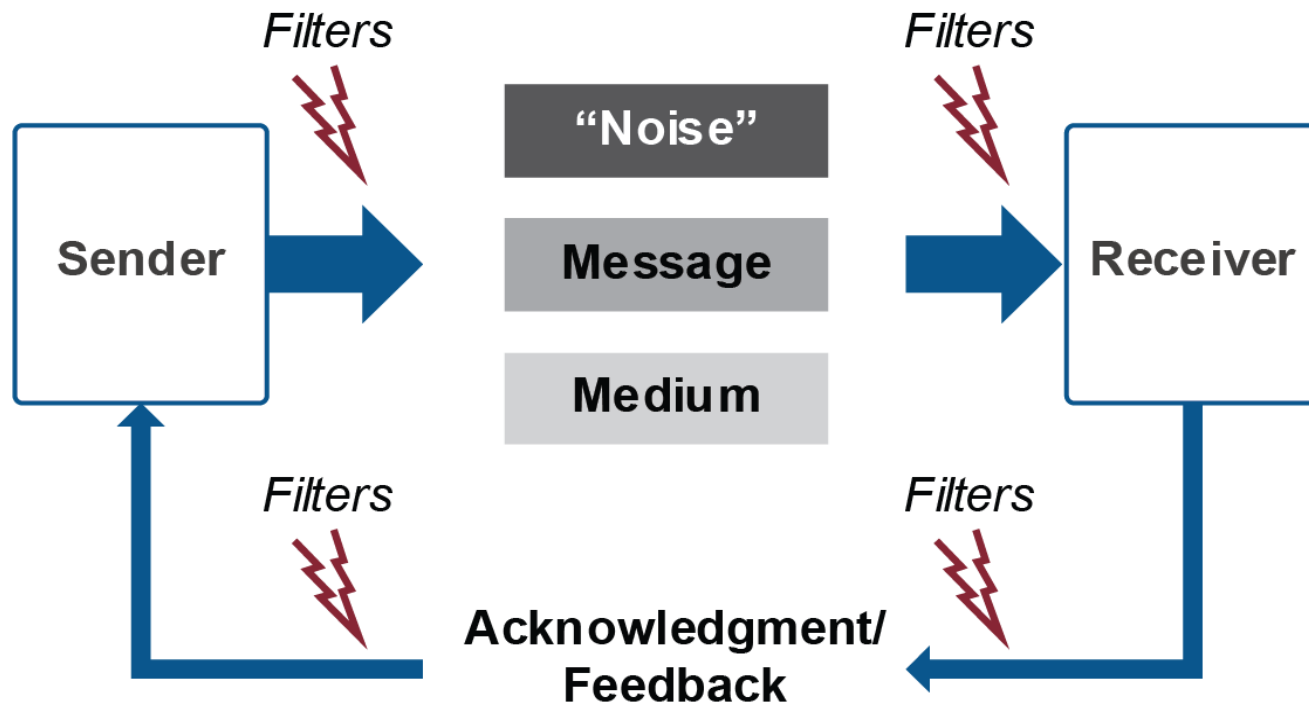
- Financial analysis

Logistics

- Logistics details and department impact

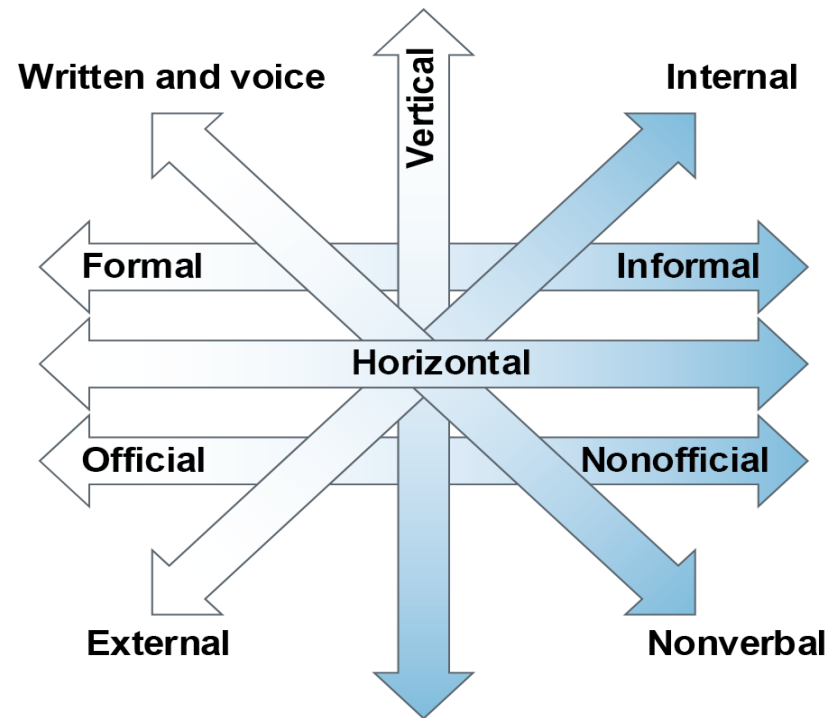
Supply Chain Relationship Management

Basic Communication Process



Supply Chain Relationship Management

Communication Dimensions



Source: Holmes Corporation. Used with permission.

Supply Chain Relationship Management

Communications Management Plans

Identify Target Audience(s)

- Preferred types, media, formality, and format
- Information needs
- RACI

Identify Target Channel(s)

- Communications complexity increases risk, cost
- Control number of formal channels

Supply Chain Relationship Management

Communication Management Plans (continued)

Create message	<ul style="list-style-type: none">• Communication purpose (e.g., consensus)	<ul style="list-style-type: none">• Craft to audience (e.g., experts)• WIIFM
Choose media	<ul style="list-style-type: none">• Urgency• Distribution• Constraints• Security/sensitivity	<ul style="list-style-type: none">• Retention• Cost• Preference
Capture feedback	<ul style="list-style-type: none">• Nonverbal cues• Acknowledge receipt	<ul style="list-style-type: none">• Feedback: agree or understand• Hone messages
Close the loop	<ul style="list-style-type: none">• Monitor stakeholder communications• Review, approval	<ul style="list-style-type: none">• Timing and release• Improve processes

Supply Chain Relationship Management

Cultural Issues

- What is culture?
 - Shared system of values, beliefs, and attitudes
- Requires research and consultation with local experts on culture, laws, and regulations

“Speak your mind”
Honest, forthright
speech in America

“Saving face”
Asian and Latin
culture



“Guanxi”
Chinese close and informal
relationships

“Ringi”
Japanese consensus building
from ground up

Supply Chain Relationship Management

Hofstede's Cultural Dimensions and Related Issues

Issue	
Power distance	High = managers dictate; low = consult
Individualism/collectivism	Individualist = self-reliant; collectivism = loyal to group
Uncertainty avoidance	High = intolerant of outside ideas; low = fewer rules
Masculine/feminine	Masculine = work over family; feminine = balance
Long-term/short-term	Long-term = traditions change; short-term = no change
Indulgence/restraint	Indulgence = freedom, good life; restraint = duty, hard life
Language/communication	Differences require interpreters, written records
Attitudes	Negotiations vary: patience, formality vs. free opinions
Customs and etiquette	Must understand what is/is not appropriate behavior
Work values	"Get down to business" vs. relationship development

Supplier & Supply Chain Relationships: Key Takeaways

1. Supplier Relationship Management (SRM)

- Focuses on efficient, integrated interactions with key suppliers.
- Supports cost reduction, inventory control, and customer satisfaction.
- Enabled by e-procurement and compatible with ERP systems.

2. Supplier Segmentation

- Based on product type, customization needs, innovation level, and lead times.
- Segmentation drives appropriate relationship and performance strategies.

3. Strategic Sourcing & Alliances

- Long-term relationships with high-value suppliers.
- Goes beyond price to value creation, collaboration, and mutual growth.
- Requires institutional commitment and proactive communication.

4. Performance & Certification

- Use of KPIs, scorecards, and certification systems to ensure quality and compliance.
- Real-time rating and feedback help self-correction and improvement.

5. SRM vs. CRM Integration

- Mirror systems: SRM for suppliers, CRM for customers.
- Goal: seamless collaboration across entire value chain.

6. Collaboration Challenges

- Cultural conflicts, power imbalances, IT immaturity, misaligned incentives.
- Success requires mutual trust, transparency, and adaptive structures.

7. Communication & Cultural Awareness

- Formalized communication plans (RACI, audience/channel targeting).
- Awareness of cultural dimensions (e.g., Guanxi, Ringi) is critical in global relationships.