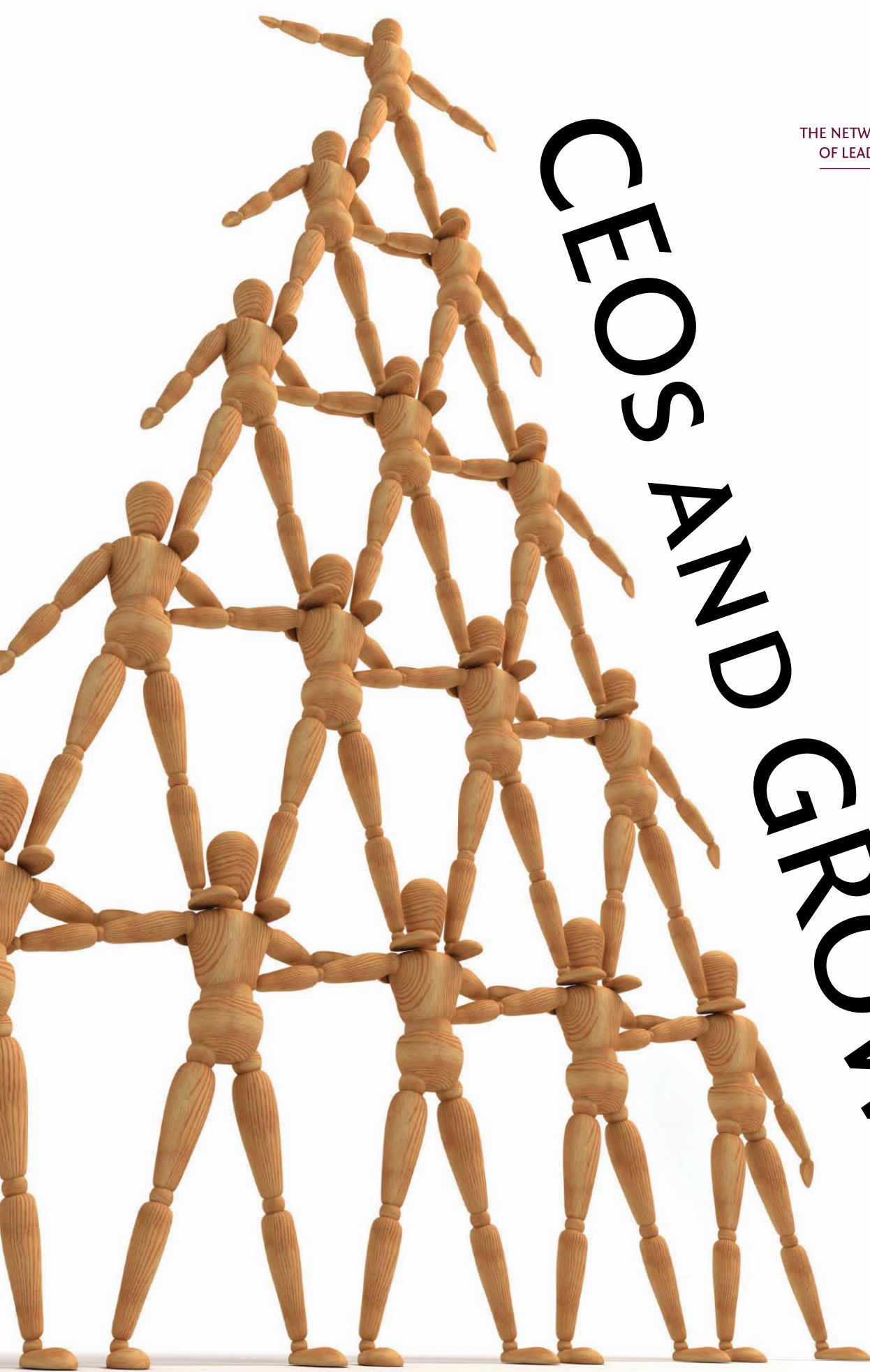


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CEOS AND GROWTH



The Innovative Use of Supplier Relationships

By Tim Lawrence

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CEOs have had to ensure their organisations had the flexibility and resilience to survive the impact of the economic downturn. Many of the same leaders have used the relationships with their suppliers as a crucial piece in delivering this agility, but also in ensuring that their businesses are fit for growth as the upturn begins.

*Supported by comments from the Criticaleye Community, **Tim Lawrence** of PA Consulting discusses how organisations' relationships with their suppliers are changing.*

The recent significant turbulence in the economic cycle has forced a rethink by CEOs and their supply chain operating teams as to the nature of the relationships they have with their suppliers. Until late 2007, global economic prosperity and market globalisation created complex, extended supply chains, which themselves acted as enablers to further globalisation. The impact of the global banking and liquidity crisis, felt since 2008, however, saw the emergence of a 'survive or die' mentality for organisations - a mindset that quickly evolved for some into one of 'collaborate or die' - a focus on improving efficiency throughout the value stream. So, as organisations emerge and seek renewed growth, how will the nature of their relationships practically change with their suppliers? How can organisations work differently with their suppliers to deliver innovation, differentiation and growth within their own businesses?

It is clear that the nature of relationships between organisations and suppliers has shifted significantly with a growing number of customer organisations adopting a more collaborative stance towards their supply base. Further, as end customers and markets demand a more tailored and unique service, higher levels of fragmentation mean that suppliers must be fully integrated into the value chain to ensure the demanding On Time In Full (OTIF) targets of 99.5% and above, as well as customer focus and service excellence, can be delivered for the sectors served. As organisations have reduced the overall number of suppliers being actively worked with, even classifying relationships outwardly as strategic or non-strategic,

CEOs and supply teams need to balance the benefits of this versus an over-reliance on their strategic relationships only.

Technology can also be a key enabler, with information flow linking end customer requirements directly to an organisation's supply base and providing intelligence in real time. However, world-class organisations often fail to harness the full benefits of this information, relying rather on the manual intervention of their teams, frequently distorting the single view of the truth in terms of demand. On the supply side, even today, there are sectors where simple EDI connectivity with suppliers still remains a significant challenge – one that, by now, should have been overcome.

By 2020, a number of today's micro-trends will have become more dominant. What would be the impact of, say, a more online connected market place or a more sustainable world?

Imagine the connected world, where the online channel becomes the dominant channel. In such a world, consumers would be able to tailor the design and delivery of their product uniquely and individually for them and the supporting supply chain would be visible online for customers, vendors and suppliers alike providing each one of them with their own aggregated view. Product fault detection would be handled whenever a product is synchronised online, driving automated service calls and repair or replacement actions. Through similar channels, consumers would be able to provide instant feedback to vendors

and suppliers, allowing improved service response times and a greater overall customer ownership experience. In such a scenario, supplier relationships would change dramatically, with each partner driven to deliver high levels of customer responsiveness and fault free products.

If a more sustainable scenario becomes prevalent, a different outcome may emerge. In a world characterised by increased consumer awareness of sustainability and increased regulatory pressures, producers may be made more responsible for the end of life disposal and recyclability of their products. Today, some countries and regions already recognise the strategic importance of raw resources (eg, rare metals in China) and they are seeking to protect their own future market growth requirements. Vendors and consumers themselves may become more obligated to justify the need to source products over longer distances, with carbon offsetting penalties even imposed. This, in turn, may see an accelerated return to local sourcing, with shorter supply chains, changing the nature of supplier relationships once again and encouraging the emergence of supply chain integrators providing value-added services such as late product differentiation.

So, as organisations develop their long range plans through to 2020, how might the nature of their supplier relationships change? Will there be a shift back to more local-based sourcing? Will supply decisions be made based on a real assessment of the costs to serve involved? We asked the Criticaleye Community for some views...



Marc Engel
Chief Procurement
Officer, Unilever

Suppliers play a critical role in achieving long-term success. At Unilever, we have an ambitious growth and sustainability agenda and we need to work closely with our suppliers to achieve that. Relationships with the most strategic suppliers will intensify - apart from being excellent in service, quality and cost, supplier relationships will also need to deliver on open innovation, faster execution and eco efficiency.

The real cost of logistics (including the impact costs to the environment) will drive to proximity and hence local sourcing. But price arbitrage between developed and developing markets will drive global sourcing.

Yes, supply decisions will be made based on an assessment of the costs to serve involved, but with a particular emphasis on the cost to the environment. Unilever recently launched an ambition to double the size of our company, while reducing our environmental impact. For us, therefore, supply decisions are made based on a real assessment of the environmental and social impact - sustainable sourcing is at the heart of our procurement strategy.



Professor Mohan Sodhi
Professor of Operations
Management
Cass Business School

Fragmentation of demand is already a reality and there will be more of it in the future. There currently appear to be three co-existing approaches and we can expect companies to choose one or a mix over the coming decade:

1. Customise the product to begin with for many different market segments. Nokia is a good example and is the leader in the mobile phone business.
2. Customise the product with software, but keep the hardware constant. This describes Apple's approach to the smartphone market - it has not gone for all customer

segments... just the most profitable. Apple essentially has only one hardware product (iPhone4), but customers can download different software to make the phone do what they want it to do.

3. Let customers customise products themselves with after-market. An example of this would be the ornaments teenagers buy for their mobile phones.

Companies will correspondingly need to understand their supplier relationships and whether these suppliers will be local or distant, strategic or transactional.

Manufacturing diverse hardware for different customer segments will need a responsive supply chain with close and local suppliers. This is the approach taken by Samsung Electronics.

Manufacturing a single base product like Apple with many software providers requires one or two strategic partners in a low-cost (ie, typically distant) manufacturing location. The software apps are delivered over the internet (iTunes), making the physical locations of these software suppliers immaterial. Nor is closeness important - Apple only wants a cut of the sales and is happy to provide software tools to these suppliers. The after-market customisation suggests that after-market suppliers need not have any relationship with the manufacturer at all, but would import cheap components and assemble locally for the manufacturer's customers.

These examples are taken from the mobile phone industry, but lessons can be drawn from other industries as well. The point is that, in order to keep up with increasing demand from customers and regulators, any western manufacturer will continue to follow a mixed strategy, but the mix will have to be continually adjusted based on a continually re-evaluated cost-to-serve. The mix will require importing part of the product from distant overseas suppliers and the rest from local suppliers. Of these suppliers, some will be strategic, some not.

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Phil Streatfield
European Logistics & IT
Director, Spicers

At Spicers we see a need to develop closer relationships with key suppliers mediated through a memorandum of understanding approach. This allows us to engage in real win-win relationships within which we take into account total cost to serve and working capital requirements. The supply chain lead times and demand volatility are certainly driving us to shorten the length of the supply chain and improve our responsiveness to our customers.



Jo O'Connor
Commercial Director
World Duty Free

As retailers of branded, predominantly luxury products, our supply chain strategy is subordinate to our product strategy. We rarely have the opportunity to substitute products or brands so, once our product strategy is clearly set to deliver newness and value to our customers, we seek to put in place a supply chain to enable flexibility, speed and tailoring (by store, airport and country).

Cost to serve considerations are secondary to cost of stock outs. Historically, the imperative to have the right product in the right place for the time-pressured travelling customer drove huge stock investments which allowed suppliers in turn to be inefficient and inflexible.

All this changed with the financial crisis. Retailers commenced large scale de-stocking programmes, which exposed enormous inefficiencies in the supply chain together with under investment in systems and skills.

Our current focus is on collaborative planning with key business partners and we see this as a precursor to collaborative supply chain partnerships. We are aiming to build trust and deliver mutual benefits from joint forecasting and production planning. As we look towards the next 5-10 years we would expect to see our supplier relationships to be less transactional and more based on an enabling culture - we enable them to plan and they enable us to sell.

We readily engage with our supply partners on the total cost to serve issue, but are unlikely to see local sourcing as a solution to cost reduction. As international retailers of global brands, we are actively driving a supply chain efficiency agenda as we see considerable scope for cost reduction. We are, however, focusing on more flexible

logistics and distribution solutions (eg, load consolidation across suppliers) from our global partners. There should be a win-win here as they, in turn, are seeking collaborative retailers prepared to take a longer-term view of the commercial relationship, which enables them to invest in upgraded systems and upskilled labour.



Jim Waller
Commercial Director
Eat Out of Home & Groceries
Marks & Spencer

M&S's supply chain must continue to be shaped by the customer. We have evolved supplier relationships from a 'one shape fits all' approach, to better segmentation into transactional relationships (with little added value in product and the supply chain) and strategic partnerships (with significant differentiation, investment and added value).

The length of the supply chain is again dictated by the customer. For as long as they demand apples in the summer, the Southern Hemisphere will remain key to our product offering. And local product sourcing is not sufficient in its own right - the product must deliver outstanding quality and freshness above all else.

suppliers play a critical role in achieving long-term success



Anne Dowling
VP, Best Practice
DHL Exel Supply Chain

I have seen two emerging trends in this area regarding the changing nature of supplier relationships:

1. In addition to having to manage a leaner supply chain, suppliers are finding themselves in an increasingly regulated environment with more stringent compliance criteria around CSR, sustainability and ethical working practices.
2. Organisations that have not invested in an IT system that can be integrated into a customer's extended supply chain will find themselves left behind. Increasingly, visibility and full integration of all suppliers' physical and information flows is a critical success factor for global supply chains.

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Tim has 20 years of experience in improving global supply chains working within the Chemicals, Consumer Goods and Automotive Sectors. During his 13 years at the firm, Tim has been instrumental in developing PA Consulting's insights into global supply chains and regularly speaks on these topics at conference platforms across Europe.

Contact Tim through www.criticaleye.net