

Supplier Relations

By Jim Davidson

The dynamics of a relationship between the buyer and seller of services will invariably look quite different between those enjoying success versus suffering through failure. While the results of these are readily and visibly apparent to both parties as measured by their individual Key Performance Indicators (KPI's) often the underlying contributing factors are not readily understood or addressed.

It has been my personal experience that success or failure is reasonably predictable in business based largely upon how well we execute the fundamentals. This approach as opposed to seeking the elusive miracle solutions or remedies that remain undiscovered through time.

Those "fundamental" elements include communication, innovation, pro-active participation, technology, performing at the highest levels, respecting cultural differences, and providing services and information that the customer doesn't have or can't generate themselves.

The communication must be open and honest and is generally required at different levels between the two organizations. This done properly will encourage and foster a desired positive relationship between the parties. Critical to this success is a complete and clear understanding of expectations prior to implementation of the business arrangement.

Innovation generally requires a level of creativity present that facilitates "out of the box" thinking that can result in double digit cost reductions while improving service levels.

Technology and the successful application of it can be elusive and often expensive. When considering the purchase and installation of new technology we must remember that it is typically only an enabler and users should be careful not to confuse this with the "product". While it is generally conceded that we could always use more and better technology, we must be diligent in ensuring that we employ it "appropriately" ensuring that waste is not incurred through this process. Technology can provide increased visibility and security in addition to cost and service improvements within the supply chain and suppliers often are in a position to provide this at reduced cost.

If we were permitted to have only one differentiator that separates ourselves from our competition, I would likely choose the ability to implement and operate at the highest levels. In various surveys of successful organizations, invariably this attribute is present and represents a significant competitive advantage to those who are able to achieve this level of performance.

For a partnership to function at the desired high performance levels, the partner's cultures must be recognized, understood, and respected. This issue will have preferably been addressed prior to the signing of an agreement but what is most important is that any differences between cultures are identified and the parties are prepared to work through these. The dynamic elements for consideration include: Empowered Employees, Structured versus Non Structured Organization, Management Leadership Style, Honesty, Integrity, Coaching Team Environment, Positive and Secure Employees and Overachieving and accountable Employees.

Much has been written over time regarding the power of owning the information or data. Providers of Supply Chain Solutions who have the resident capability to gather, cleanse, manipulate and produce useful reports to improve operating and financial results, can create a competitive advantage for both themselves and their customers.

While none these elements are new, and all are generally well understood, it continues to be surprising just how many organizations continue to ignore the “basics” that are required to generate success.

Fictional Case Study Example:

A large manufacturer and distributor of products made an internal decision to outsource the distribution of their North American products that included both warehousing and transportation components of their supply chain. They were very process driven and moved forward in an orderly and objective manner to select a 3PL to partner with in this outsourcing. Their process included capability presentations, actual optimization of their supply chain, interviews with the various department heads of both provider and buyer, overall a very comprehensive study of potential providers.

Unfortunately, the cultures of the organizations were not part of their due diligence and were not examined as part of their extensive selection process. Once their decision was made they identified one 3PL provider as their partner and they then proceeded to negotiate a contract as the basis to move forward. It was during this process that they discovered significant cultural differences between the organizations that in turn made it very difficult to negotiate an agreement. In the end, the large manufacturer's head office located outside of North America had to get involved with the 3PL's head office also outside of North America to come up with a suitable agreement.

After signing of the contract, the two parties North American offices began moving forward with the outsourcing arrangement. Not surprisingly, there were immediate and significant culturally based issues that negatively impacted the success of this exercise. While the outsourcing did move forward, the scope of the project was significantly downsized, the overall proposed cost reductions were not achieved, and service and quality levels were negatively impacted.

In retrospect, if the outsourcer had investigated their cultural differences, they would have determined a number of potential “show stoppers”. They would have discovered that their 3PL was very *autocratic* in management style and all of their decisions could only be made at the highest levels within the organization versus the manufacturer that empowered their employees and expected their employees to make immediate and correct decisions. The manufacturer believed strongly in the wellness of their employees versus the 3PL that was completely focused only on the bottom line which was often at the expense of their employees. The manufacturer believed in and practised honesty and integrity while the 3PL provider again was more focused on the bottom line. Similar negative differences existed with the two parties employee base in terms of how their respective employees felt about themselves within their working environment.

I am confident in saying that if this provider was going to proceed with further outsourcing or re-outsourcing, they would include an in depth look into the potential for cultural differences.