Supplier Collaboration

Necessary or Needless?

RADLEY
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NEEDLESS OR NECESSARY?

Managing Supply Chains

— How does supplier collaboration impact the bottom line?

It's no secret that supply chains are becoming increasingly complex. From sourcing, manufacturing, and storing inventory, to the logistics of shipping and tracking orders, moving product through distribution networks on time and within budget presents an on-going challenge for manufacturers. Add to that government regulations, increases in customer demands and market globalization and it's easy to see why creating responsive and cost-effective supply chains is more difficult than ever before.

As the business climate continues to rapidly change, companies seek out ways to leverage greater efficiency in their operations. One of the key areas of interest is supplier collaboration. Supply chain collaboration is defined as two or

Supply chain industry trends
2017 risk concerns
From economic and political uncertainty to supply chain disruptions, suppliers are facing an unpredictable risk landscape in 2017. Supply chain teams listed the biggest risks facing their supply chain this year from most to least concerning. The percentages below depict the respondents' top concerns:
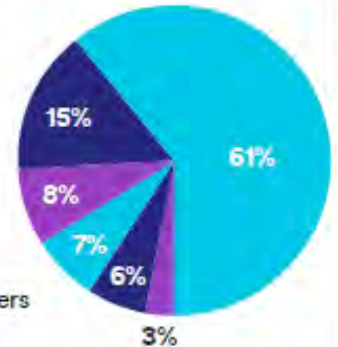
61% – Volatile commodity and supply prices

15% – Uncertain policies of new U.S. administration

8% – Regulatory compliance

7% – The performance of tier two and tier three suppliers

6% – Natural disasters and supply disruptions

3% – Cybersecurity

Source - 3M: Driving growth and innovation through supplier partnerships. Feb. 2017

more autonomous firms working jointly to plan and execute supply chain operations.[1] There are advantages to fostering closer supplier relationships, but how much impact does supplier collaboration really have on the bottom line?

How did we get here?

Let's first take a look back to the start of supply chain management. Before the industrial revolution, production of goods was performed locally, allowing for direct alignment with the source of raw materials. With the expansion of shipping in the late 18th century, raw materials grown in one part of the world could be transported to another for processing. However, communication technology lagged far behind until the advent of the telegraph, bringing with it greater collaboration between manufacturers and suppliers.

Supply chain management leapt to the forefront with the modern assembly line in the early 20th

century, followed by widespread use of the telephone, further boosting communications capabilities. With the development of EDI (electronic data interchange) in the 1960's, and later ERP (Enterprise resource planning) systems, the focus was on cost reduction and added value. Beginning in the 1980's firms began to see the benefit of forming collaborative relationships with their suppliers.

In the 90's, the term "supply chain management" was redefined to include supply chain relationships for the purpose of competitive advantage.[2] By fostering collaborative supplier relationships companies could realize greater control over the processes effecting inventory procurement. Even so, these relationships seldom expanded beyond one-on-one supplier to manufacturer communication.

In the new century, changes in the way we do business have altered the concept of supplier collaboration. Globalization, multi-location manufacturing, and ease of communications have allowed for a network approach. Specialized partners work together to contribute to overall efficiency, address risk of disruption and align data along the supply chain.

Taking the Plunge

While a networked approach to supplier relationships is easy to discuss, implementing the idea has proven harder to achieve. A recent study found that 70% of suppliers said at least half of the customers they supply do not have a strong system and process in place for buyer and sup-

Expected increase of electronic connections over the next three years.
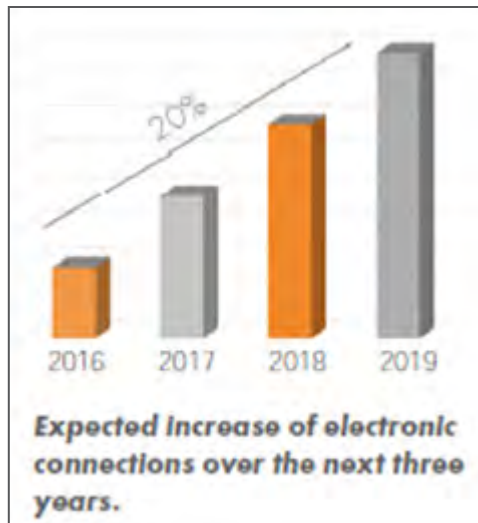
plier collaboration.[3] While EDI has, in part, filled this gap, it may not be ideal for all supplier levels. Most large manufacturers and original equipment manufacturers (OEM's) utilize EDI technology to communicate with their suppliers, but smaller suppliers often do not have the resources to implement and support it. Therefore, these smaller suppliers rely on manual document creation (faxing, telephone, etc.) which is labor intensive, error prone and financially costly. Manually processing an order is estimated to cost $38 in comparison to just $1.35 for an order processed using EDI.[4]

Not wishing to burden these smaller suppliers with implementing an EDI solution, many companies are turning to web-based collaboration portals to streamline communication with their suppliers. In a recent study from the University of Tennessee, electronic connections are expected to increase more than 20 percent over the next three years and 69 percent of those surveyed said that they intend to increase the number of customers they trade with electronically.[5]

Reaping the Benefits

For companies implementing supplier collaboration methods, what gains have they seen? A 2015 report by SCM states that the quality of supplier relations can impact 30% of a company's gross profit and half of its operating profit.[6]

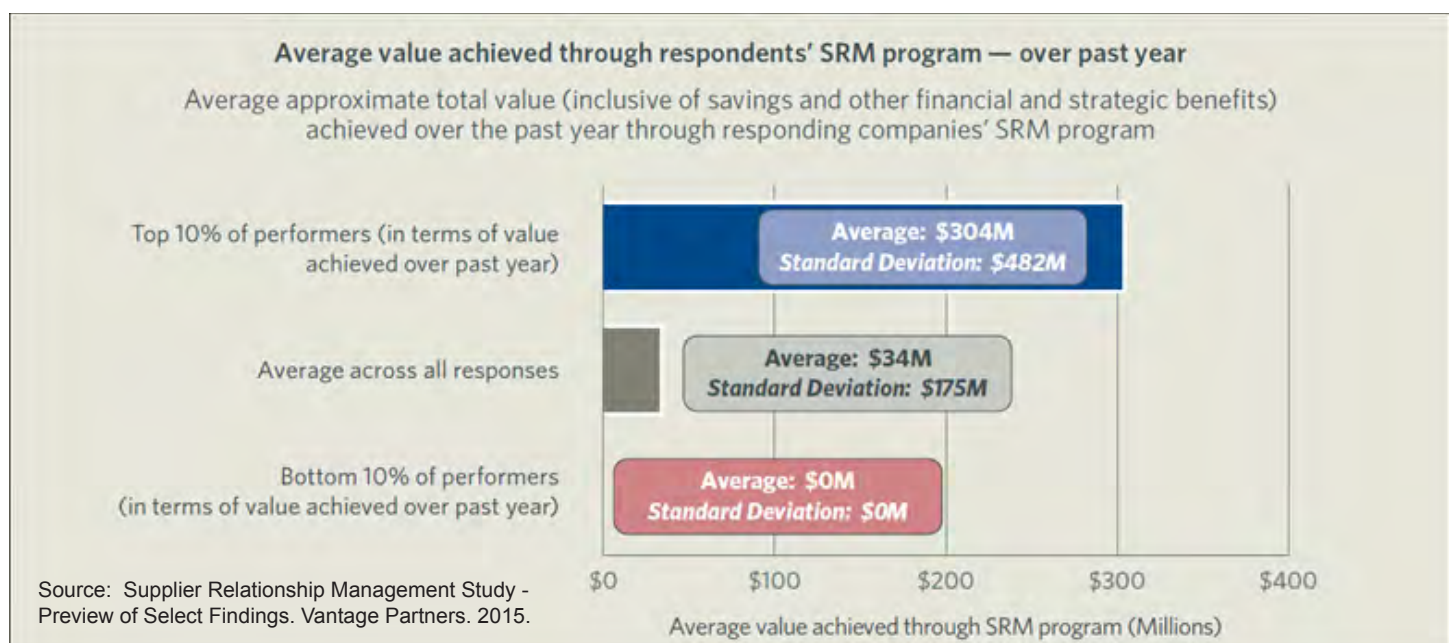Similarly, a study[7] of 956 respondents from over 500 companies in various industries found:

The top 10% of performers (in terms of value achieved through SRM) reported an

average of US $304M, inclusive of savings and other strategic and financial benefits, was achieved through their SRM programs in the prior year.

Three areas of process improvement stand out as key factors being impacted by supplier collaboration, resulting in savings in costs, labor or risk.

1. Efficiency – Efficiency gains reduce the overhead costs of manual labor tasks, paper document processing and re-processing due to errors. Suppliers with close working relationships to their buyers can also work together toward joint decisions on product design, marketing, pricing, production or distribution which can contribute to further innovations in continuous improvement.

2. Financial Costs – Supplier collaboration adds visibility to inventory shipments, including in-transit orders. With this increased visibility, companies can implement just-in-time inventory (JIT) and avoid over- or under-stock situations. JIT reduces the chance of unnecessary expenses accrued through storing and managing components and finished goods held in inventory.

2 | How strategic supplier engagement boosts competitive advantage
% of respondents saying 'extremely relevant'

Supplier giving you priority in times of tight supply/capacity	64
Collaboration on cost efficiency of supply chain	64
Collaboration on quality improvements	54
Faster problem solving/time to market	54
Supplier giving you innovations/ideas ahead of competitors	46
Joint risk mitigation strategies	38
Co-development of new products/services	35
Collaboration on new customer propositions	30
Access to supplier's best talent	29

Source: SCM World CSCO survey 2014

Average value achieved through respondents' SRM program — over past year

Average approximate total value (inclusive of savings and other financial and strategic benefits) achieved over the past year through responding companies' SRM program

Top 10% of performers (in terms of value achieved over past year) — **Average: $304M** **Standard Deviation: $482M**

Average across all responses — **Average: $34M** **Standard Deviation: $175M**

Bottom 10% of performers (in terms of value achieved over past year) — **Average: $0M** **Standard Deviation: $0M**

Source: Supplier Relationship Management Study - Preview of Select Findings. Vantage Partners. 2015.

Average value achieved through SRM program (Millions)

3. Risk reduction – With supply chains growing increasingly complex, companies fear risks associated to supplier failure. Beyond just financial failure, the inability of suppliers to deliver goods due to natural disasters, regulatory compliance or quality issues all have the potential to effect the purchaser's ability to meet demand. Supplier collaboration solutions offer ways to anticipate disruptive events. Visibility to demand and lead times, alerts for shipment delays, demand forecasting, supplier audits and quality ratings all can help to mitigate risk of disruption.

Closing the Circle

Whether supply chains will continue to increase in complexity or become smaller and more simplified over the coming years remains to be seen. Regardless, the impact of consumer demands still dictates a need for speedy product innovations, dependable supply sourcing and manageable production costs. Companies that leverage technology, including supplier collaboration tools, to address these challenges may realize a significant competitive advantage. Those that don't may have some catching up to do.

References

1 https://en.wikipedia.org/wiki/Supply_chain_collaboration

2 Robert B. Handfield; Ernest L. Nichols (1999). Introduction to Supply Chain Management. New York: Prentice-Hall. p. 2. ISBN 0-13-621616-1.

3 3M: Driving growth and innovation through supplier partnerships. Feb. 2017

4 http://www.edibasics.com/benefits-of-edi/

5 Transform Your Supply Chain with Collaboration: Enabling Integration between Suppliers and Customers Using Technology. J. Paul Dittmann, Ph.D., Executive Director Global Supply Chain Institute The University of Tennessee. Sponsored by DiCentral. Spring 2016

6 Supplier Management Excellence: Delivering Value Through Collaborative Relationships. SCM World. March 2015.

7 Supplier Relationship Management Study - Preview of Select Findings. Vantage Partners. 2015.
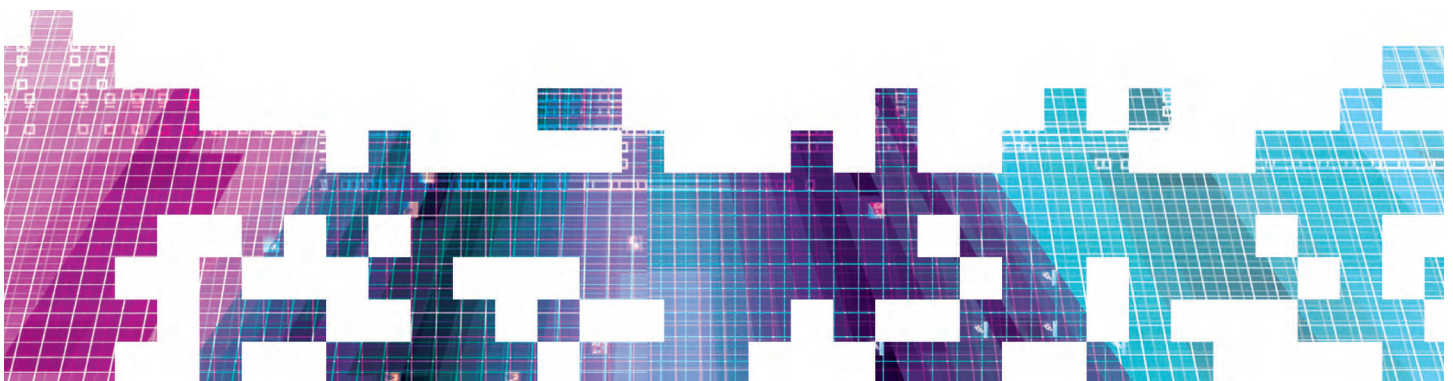
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