

JONATHAN O'BRIEN

3RD EDITION

SUPPLIER RELATIONSHIP MANAGEMENT

**UNLOCKING THE VALUE
IN YOUR SUPPLY BASE**



Supplier Relationship Management

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Supplier Relationship Management

*Unlocking the hidden value in
your supply base*

THIRD EDITION

Jonathan O'Brien



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For Elaine, Emily and Hugh

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ABOUT THE AUTHOR

Jonathan O'Brien is the CEO of the international procurement consultancy and training provider Positive Purchasing Ltd (www.positivepurchasing.com). Jonathan has over 30 years' experience in procurement. He has worked all over the world to help global organizations increase their procurement capability through training, education and working directly with practitioners and executive teams to drive the adoption of category management, supplier relationship management, negotiation and other strategic procurement methodologies.



Jonathan is an electronics engineer who ended up in procurement. His career in engineering soon moved into supplier quality assurance, and it was the hundreds of supplier audits undertaken involving detailed examination of business practice and process that provided a sound understanding of how organizations work, and thus began the process of working with companies to help them improve. A move to a senior buying role in a large utility company shifted the focus to the commercial aspects of procurement and this career path culminated in a global category director role for an airline business. Jonathan moved to an internal consultant role and helped lead a series of major organizational change programmes. A subsequent move into consultancy, initially with a large global strategic procurement consultancy and later with his own business, provided Jonathan with the opportunity to work with some of the biggest and most well-known companies in the world to help improve procurement capability, gaining a rich experience along the way.

Jonathan holds an MBA from Plymouth University Business School, a Diploma in Marketing and an HNC in electronics, is a Member of the Chartered Institute of Purchasing (MCIPS), and NLP Master Practitioner and a former registered Lead Assessor of quality management systems.

Jonathan and his team at Positive Purchasing Ltd have developed and created the 5i[®] Category Management process, the 5A[™] SRM process, the Orchestra of SRM[®], the Buyer's Toolkit[™] featuring the 5D Power Buying

Process and the Red Sheet® negotiation tool that has become the way many individuals and corporations approach negotiation.

Jonathan has published four books with a fifth due for release in 2022. He is also an accomplished broadcaster and artist and lives with his family in Plymouth, UK. He hosts the podcast *The Procurement Show* and works across the sector to promote best-practice procurement.

You can connect with Jonathan on LinkedIn.

PREFACE

A supply base represents a wealth of possibilities and opportunities for any organization, however, few ever get past interfacing with suppliers at anything other than a transactional or contracting level. Yet amongst the multitude of suppliers most organizations carry, value, innovation, efficiency, reduced cost and increased security of supply are available to those that can find it and unlock it. There may even be a handful of suppliers who hold the potential to help grow a brand or business, or improve competitive advantage. The secret is identifying who these are and figuring out how to engage with them in a way so as to enable this to happen. This is a practical book that helps do just that.

Not all suppliers are the same; despite the aspirations many hold to have a closer relationship with you, only a small number actually warrant this in terms of the potential value a relationship can bring. Supplier relationship management (SRM) is an umbrella term that is about deciding the level of intervention and the extent and nature of any relationship needed with suppliers. For the vast majority this should be minimal, with our precious resources being directed only at working with those suppliers with whom we can realize significant and worthwhile value.

The term 'SRM' holds different meanings for different people and this book seeks to bring clarity here. SRM is a strategic, organization-wide philosophy that brings together a series of discrete supplier and supply chain approaches including supplier performance measurement (SPM), supplier improvement & development (SI&D), supply chain management (SCM) and strategic collaborative relationships (SCR). SRM provides the means to select and integrate these different components according to how an individual supplier or a supply chain can add value to a business. SRM is therefore an ensemble of complementary supply base interventions, determined and coordinated strategically according to corporate aims and objectives. This book explores each of these components and how, when combined, they form the 'Orchestra of SRM'.

If you seek competitive advantage for the future in an ever-changing world, if you need more from your suppliers or if you struggle to get the performance or response you need, if you are concerned about risk in your

supply chains or if you believe that your supply base can make a much greater contribution to your future business aims and aspirations then you need to read this book.

I am interested to learn of your experiences of SRM and using the approaches outlined in this book. Please feel free to connect with me on LinkedIn or e-mail me at jonathan@jonathanobrien.co.uk and share.

ACKNOWLEDGEMENTS

This is the third edition of my third book and concludes the ‘strategic trilogy’ of books that together define strategic procurement and provide procurement practitioners with the tools and techniques they need to be highly effective and make significant contributions in the organizations they work for.

I cannot take any credit for inventing SRM – it is out there, interpreted and applied in a multitude of ways. I have sought to provide clarity of definition; to codify it and provide a suite of tools and concepts that can make it an effective reality that adds great value. Much of what I have learnt over the years has come from working as a practitioner, coach and trainer in many large organizations and has found its way into this book in some form. It has also come from some bright and brilliant people who have shared wisdom along the way and have helped me shape ideas and concepts to create what you will read in this book. You all know who you are and if that is you, then thank you.

Thank you to all those I worked with in my early career when I was a Supplier Quality Assurance Engineer. I’ve finally found a way to connect the wisdom that I accumulated in that role around quality management and supplier quality assurance, with effective supplier management for the procurement community.

Thanks to Dr Alan Ebbens for his passionate and determined help and research support to figure out what really needs to happen to collaborate with a supplier and make joint working a reality. Thanks to Dave Smith, who sadly we lost in 2019. Dave helped to illuminate my thinking, and especially helping figure out how social interaction can transform collaborative supplier relationships, a concept that has become a key thread throughout this book. Thanks to Andrew Northmore for help on how measurement in organizations really works and how it can really be transformed.

Thanks to pilot Pete Olsen for the Kennedy Example, to Lisa Barton for sharing examples of how ego gets in the way of consistency in managing suppliers and thanks also to all the editors at Kogan Page for being patient so I could finish the book or revised editions and make sure it was the right book.

I'd like to acknowledge Paul Steele and Brian Court's work on the supplier preferencing model in 1996, which is an incredibly powerful model that I've used and written about for many years but whose origin I have not, until recently, been able to identify. That was corrected in the second edition and Steele and Court are now duly referenced.

The biggest thank you is once more to my family. Thanks to my wife Elaine for relentlessly proofreading the entire book and even remarking with a touch too much surprise, 'It's actually quite interesting and I now have some idea what you do.' But I have to thank my entire family for putting up with me writing another book, a second edition and now this third edition without complaining.

Finally, thank you to you for buying this book. I hope it equips you with something worthwhile.

Most of the models and concepts in this book are new and original work; many are groundbreaking. I have made every effort to properly research, reference and duly credit all work of others, however I apologise in advance for any omissions.

Introduction

Using this book

This is a book about ‘supplier relationship management’ or SRM. Say ‘SRM’ and some will think of measuring or managing suppliers, others will think of it as something more strategic where we have a special relationship with suppliers who are particularly important. Does SRM apply to all or just some suppliers, and do we mean suppliers or the entire supply chain? In fact there is, it seems, no common understanding of what ‘SRM’ is; it holds multiple meanings depending upon whom we are talking to.

As we move through this book I will provide clarity here and describe SRM with its various component parts in detail and I will attempt to explain how these fit together. This is a practical book for anyone who interfaces with, or manages, suppliers in any way. It will provide procurement practitioners with the framework and tools to understand, segment and drive in systematic approaches to manage an entire supply base effectively so as to secure the optimum value possible with the resources available. Equally it will help anyone who needs to engage with or have some sort of relationship with suppliers to ensure those engagements are effective.

SRM is somewhat unique as it is not a single linear process or series of steps that leads to an outcome. Rather, it is philosophy that frames a collection of individual actions, interventions, approaches and mindsets. This is fundamental to grasping SRM and why much of what is published in this space seems to fail to articulate the concept as SRM is not something that can follow a single process. Instead SRM is like an orchestra, with different sections that play when needed to create a complete piece of music unique to an individual supplier. This *Orchestra of SRM* concept is the basis for this book and so the chapters are organized to explore how each section can work in concert to create something magnificent.

A strategic procurement trilogy

This is my third book on key strategic procurement methodologies and is designed to enhance, complement and integrate with the frameworks and approaches of category management and negotiation planning. Indeed, SRM uses many of the strategic tools found within these methodologies. Therefore this book has been written so as to be used together with *Category Management in Purchasing* and *Negotiation for Procurement and Supply Chain Professionals* (also published by Kogan Page). Where a tool has already been expanded in one of these previous works it is not repeated again in this book but referenced at a high level. It is recommended that all three publications are used together to provide the complete strategic procurement approach.

Twenty SRM pathway questions

This book is organized so as to explore each component or section of an overall SRM approach and show how these fit together. It seeks to provide answers and practical steps for 20 key or 'pathway' questions. If you can answer all of these questions with confidence then you're in great shape. However, for many organizations these are difficult questions that represent the gap between aspiration and reality. They also help reveal the pathway to move towards making effective SRM a reality. This book will help not only to form answers to these questions but to develop real actions that enable the firm to progress and realize great value from the supply base.

SRM pathway questions

- 1 What is the contribution we need from our supply base and why?
- 2 Which suppliers are important to us and why?
- 3 How much resource do we need and if we have only so much resource, which suppliers should we direct this at and why?
- 4 How are our suppliers performing?
- 5 Are we getting the most from our suppliers and how can we be sure?
- 6 What supplier improvements would make a difference to us and how can we drive these?

- 7** Do we know everything we should know about our suppliers?
- 8** Are suppliers meeting their contractual obligations?
- 9** What contracts are due to expire or need to be reviewed in the near term and how are we planning for this?
- 10** What are the risks with suppliers or back up our supply chains and how is this risk being managed?
- 11** Do we have the right relationships with the right suppliers and are we in control of these?
- 12** Do we understand and are we in control of all other relationships and interfaces people have with suppliers across our business?
- 13** Do we understand our supply chains? Are we maximizing any opportunities to make them more effective?
- 14** What innovation do we need from our supply base and how are we going to get it?
- 15** Which of our important suppliers hold the potential to make a dramatic difference to our business and why?
- 16** Are we working collaboratively with those critical suppliers towards jointly agreed goals that will make a dramatic difference?
- 17** Are all our efforts with suppliers coordinated and aligned with our corporate goals?
- 18** Is corporate strategy informed by supply chain possibilities?
- 19** Across our organization does everyone know what is expected of them when working with suppliers?
- 20** Do we have the capability, structure and processes we need here?

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01

What we need from our supply base is...

This chapter explores our changing environment and the implications for organizations and their supply base. It considers how this is driving organizations to place new demands on their suppliers and how the supply base is responding. Finally it concludes with a definition of what organizations now need from suppliers and the modern role organizations require important suppliers to fulfil.

Pathway question addressed in this chapter

- 1 What is the contribution we need from our supply base and why?

Previous editions of this book opened by setting the scene for how the world is a fast-changing place, what this meant for our supply base and how we might manage it. This chapter would then outline some of the trends and changes that would help procurement and supply chain professionals have the right impact in our organizations. Prior to 2020, what you would have read in this chapter made perfect sense and set the scene for the rest of this book. Then Covid-19 happened; and Brexit; and the world started to take global threats including climate change seriously; and everything changed.

The rocket ship of change

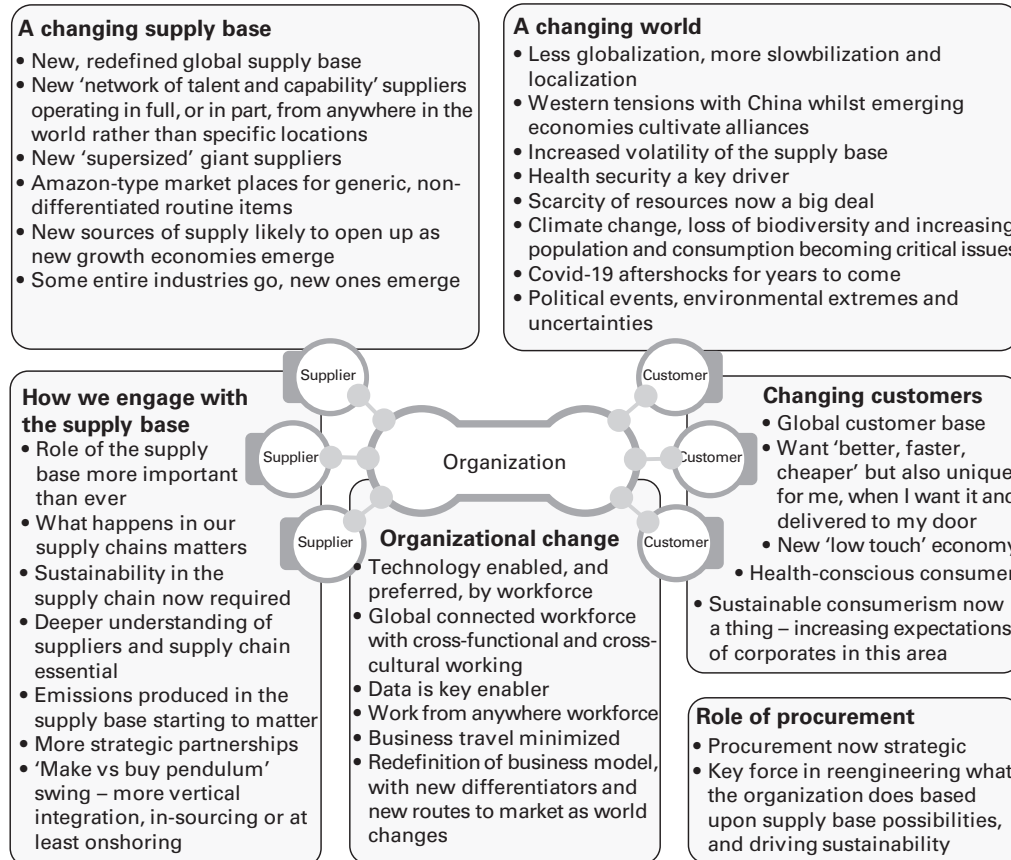
Prior to 2020 we were already on a trajectory of change, aboard a rocket ship steadily climbing to a new place. Then in spring 2020 the main booster

engine ignited, and we instantly found ourselves fighting back the G-force, clinging on aboard our rocket ship of change, accelerating at an eye-popping rate towards a whole new future of procurement and a new normal. We leapt forward ten years in just three months (McKinsey 2020) in terms of adopting technology. Back then, it soon became apparent that what was initially thought of as a short interruption was in fact a sea change into a new world and one permanently altered in terms of economies, suppliers, supply chains, behaviour and how we live our lives, work, interact and shop.

Ripples from 2020 will keep being felt for decades and while Covid-19 may be more under control it will not suddenly disappear; instead it will fade into the background with an ongoing global battle against new variants and the now increased likelihood of repeat pandemics from another virus (more on that later). The changes it has driven, and the ongoing residual threat, together with other key drivers redefine how procurement needs to organize itself to be effective and in particular how it manages the most important supply chains and relationships with key suppliers. Simply adapting what we have always done won't cut it. Instead 2020 provided procurement with a unique opportunity to lead a dramatic change in the way organizations regard and engage with their supply base in order to be the key driver of future competitive advantage in a very different world.

Supplier Relationship Management begins by asking 'What do we need from our supply base?' However, this is rarely an easy question for organizations to answer. Indeed, when I have posed this very question to senior executives the response is typically either a thoughtful silence or the de facto response of 'to supply what we want, when we want it, to specification etc.' Clearly, we all expect such things, but that is only the ticket to the ball park; the big game is how rapidly changing organizations can secure supply, unlock new value, innovation and competitive advantage, become more sustainable and ultimately survive – all enabled from a new-world supply base that is equally rapidly changing. The opportunities abound and the imperative for change in how we regard and manage our supply base has never been stronger. In order to develop a good response, we first need to understand the landscape around us and how the main booster engines powering the rocket ship of change, in particular the seismic global shift following Covid-19 and the sustainability imperative, are changing or set to change this landscape beyond all recognition. This then sets the scene for how we need to engage with our future supply base and is why we begin with an entire first chapter to explore it, starting with sustainability. Figure 1.1 summarizes what we will cover.

FIGURE 1.1 'The rocket ship of change': how we can begin to understand our changing landscape



Sustainability is now centre stage

Twenty years ago I believed that sustainable procurement was the ‘next big thing’ companies needed to embrace. I also believed there was a willingness to do so, but I was wrong. The companies I worked with then were curious about sustainable procurement and interested to hear what I was proposing but there was little engagement. Instead clients asked for help to transform procurement, save money, manage key suppliers or negotiate better with suppliers. The idea of helping companies realize sustainable procurement got shelved in favour of other areas of strategic support for procurement. It seems I was 20 years too early. Fast-forward to today and things have changed. Now sustainability is centre stage and companies are trying to figure out what to do about their supply base.

There are many names for this – Corporate Social Responsibility (CSR), Environmental, Social and Governance (ESG), the Circular Economy, Green Procurement, Ethical Purchasing and others beside. Yet ‘Sustainability’ seems to be the label that is emerging as the strongest. Perhaps because ‘Sustainability’ seems to capture the new Zeitgeist as it neatly encapsulates the idea of ensuring ‘we can exist constantly’. This means considering the capacity of the earth’s global ecosystem and human civilization to co-exist and therefore how we can meet our needs today without compromising the ability of future generations to meet their own needs.

Once, not that long ago, few corporate boards held any interest in pursuing the sustainability agenda except for the few that were doing so to protect or recover the business from the harm of exposure. Fewer still did things because they believed it was the right or necessary thing to do. Instead most organizations opted to concentrate on the business of business and returning profit to shareholders. The situation is different today and while legislation in this area is slow and regionalized, yet emerging fast, it is difficult to ignore the enormous sustainability imperative to act that is now upon us. It is not just new legislation compelling organizations to act but the need to shore up supply now and into the future against the backdrop of increased supply-side volatility from the rapidly shifting supply base. And then there is the fact that organizational thinking is starting to recognize that a firm’s stakeholders exist beyond the owners of a business or those directly associated with it but instead extend to us all, communities, our children, our planet and all life on it. Ignoring these stakeholders is now bad for business, especially when it is visible. Fail to address single-use plastics, cause a pollution incident where pictures of dead animals on beaches are on

every news bulletin or be the brand featured in a video that goes viral showing how your product is driving orangutans out of their habitat and the impact can be severe and long-lasting. Addressing such things is neither straightforward nor easy, primarily because the biggest risk areas in sustainability terms often exist in the supply chain several steps removed from us.

The motivation to work towards being more sustainable for forward-thinking organizations goes beyond protecting the organization. Rather, it is providing a new means to create competitive advantage, increase market share and build brand value. A shift in consumer behaviour more towards expecting and checking that the companies we buy from are getting this right clearly signposts the direction of travel. Investors also see the potential with socially responsible companies outperforming traditional stock market investment driving a new world of ESG (Environmental, Social and Governance) transparency and reporting as a means to measure how sustainable an organization is. Some organizations have taken sustainability one step further and set out a philanthropic mission to bring new value to people, the planet and society at large above making profit. No matter how developed the motivation for sustainability is, what is clear is that it is now on the boardroom agenda, with many organizations embracing the idea of a 'triple bottom line' to measure and drive the enterprise in terms of profit and also in terms of people and planet, thus recognizing a company's wider stakeholder base.

While it feels like this imperative to act has suddenly appeared, the reality is that it has been growing steadily in the background for a long time now but been conveniently ignored by nations, politicians, companies and of course by us. While the cries of the few to 'act now' largely fell on deaf ears we continued to head towards what is now a very real risk of a bleak future. Some suggest we face the extinction of the human race in the near term unless we change things. Ord (2021) puts the likelihood of this happening this century at one in six. Others suggest that we are an intelligent, interconnected species, capable of adapting to survive. Longrich (2020) suggests that as *Homo sapiens* have survived over 250,000 years of ice ages, eruptions, pandemics and world wars, we could easily survive for another 250,000 years or longer.

Irrespective of where we, or where the scientists, sit between an optimistic view of the future or an apocalyptic one, there is widespread agreement that we are facing some significant threats, mostly of our own creation and of a magnitude we cannot ignore that will, at best, cause significant disruption and difficulty for our generation and more so for future generations. Of

all the threats we face, there are three that carry the potential of grave impact on our world and our lives within in. Efforts towards sustainability therefore centre around these: they are climate change, loss of biodiversity, and population growth and consumption. It is essential we understand these as each holds significant implications for our future supply base and how we will need to source and manage our suppliers into the future. I will explore each in turn.

Climate change and how our future supply base emissions matter

Climate change is the global warming of the earth caused by human emissions of greenhouse gases and the resulting large-scale weather changes across the planet. Today the world adds approximately 50 billion tons of greenhouse gases into the atmosphere every year. This figure is increasing and with it the temperature of the earth. If nothing changes this could triple by the end of the century.

Since preindustrial times the temperature of the earth has already increased by 1° C. The five-year period to 2020 was the warmest on record, with the average temperature rising to 1.1° above the pre-industrial era and that included a drop of 4 per cent of global emissions due to Covid-19 lockdowns (World Meteorological Organization, 2020). It looks like we are on track for warming to continue to reach somewhere between 1.5° and 3° by 2050. By the end of the century the increase could reach 4.8° (Ritchie and Rosser, 2020) and Gates (2020) suggests this figure could be as high as 8°.

These increases may seem small and inconsequential, but any increase above 1.5° holds the potential to cause what is nothing short of a climate catastrophe that will impact all life on this planet and the future of the human race. We can expect an increased and greater magnitude of natural disasters. For example wildfires, heatwaves, severe flooding, extreme droughts will be greater and more widespread and will last longer, mostly in developing nations which typically use 90 per cent of their water for agriculture, meaning food supply will be severely threatened. By 2050 about a third of the earth's even larger predicted population will live in severely water-scarce areas and we can expect one billion climate change migrants on the move away from parts of the earth that will become uninhabitable.

Emissions are also a major cause of air pollution with 91 per cent of the world living in places where air quality exceeds World Health Organization limits (World Health Organization, 2016). Burning fossil fuels releases

gases, chemicals and particles into the air, exacerbating global warming and in turn increasing temperature which further worsens air pollution. Poor air quality accounts for an estimated 4.2 million deaths each year due to stroke, heart disease, lung cancer and chronic respiratory diseases (World Health Organization, 2016).

To adequately address the spectre of climate change, all nations of the world would need to reduce their CO₂ emissions each year to zero before 2030. So far, despite some pledges by some developed nations in recent years, we lack the ability and appetite to achieve this to the degree necessary. In coming years we are set to be faced with the challenge of dealing with the consequences of climate change and this will impact our global supply base. It will drive shifts in where things come from, how they get to us and how they are processed. Expect a future carbon tax and having to measure and be accountable not only for our emissions but for those produced in our supply chains. If we don't fully understand our supply chains today, soon we will have no choice.

Biodiversity loss and its impact on future sources of supply

Our world is a complex global interconnected ecosystem which we are part of and depend upon. This system works and sustains life on this planet because of the way all life on our planet exists, interacts with and depends upon each other within this system. Remove parts of this system or erode biodiversity, which is the variety and variability of all life, and it either stops working or will have a significant impact on part or all of the system. This in turn threatens food and water supply, water quality (especially in under-developed countries), the environment and ultimately life (including ours) on this planet as agriculture becomes less able to withstand threats such as pests, disease and the impacts of climate change. We can also expect more, and more frequent, pandemics as humankind encroaches more and more into the wild, changing the balance of things and exposing us to new, as yet unknown, viruses.

Biodiversity is being lost at an alarming rate, hundreds of times higher than the natural rate, with one million of the eight million species on the planet now facing extinction. One in four plant or animal species are threatened (IPBES, 2019) and an estimated 10 per cent or greater of the world's insects are also threatened which will impact the 75 per cent of the world's food crops that rely on pollination by insects (Attenborough, 2020).

The primary cause of biodiversity loss is human activity, in particular the destruction of habitat by humans to clear land for agricultural use (such as beef and other livestock, palm oil, paper products, soya or cocoa plantations). Nearly half of the earth's trees have been felled and between 1990 and 2016 an area larger than South Africa was cut down (Nunez, 2019). Biodiversity loss also arises from the extraction of natural resources, urban development, species overexploitation (overfishing, poaching, direct species exploitation or indirect where species are lost as a consequence of other human activities), invasive species and disease (increased due to human activity), pollution and climate change.

It seems biodiversity loss has gone largely unnoticed until now, or at best we have regarded it as a problem that exists somewhere else in the world and wondered why no one was doing anything. Awareness is stronger now and we had better understand how wealthier nations have been importing biodiversity loss, creating demand for the resources that drive agricultural prosperity in developing nations and with it deforestation. Sustainable consumerism is driving new brand propositions that make headway here, however biodiversity loss is now a core consideration for any organization serious about sustainable procurement. This is more than thinking about where things come from; it demands a procurement-led sustainable value reengineering of what the organization does with the raw materials it uses, where and how things get processed and so on.

Population growth, the consumption of resources and the risk to future security of supply

There will be two billion more people on the planet by 2050 as the world's population is set to reach 9.7 billion by then, peaking at 10.9 billion by the end of the century (Roser, 2019). While the rate of growth is slowing, it will be the next century before this has any meaningful impact. In the meantime, our planet somehow has to sustain this unprecedented population expansion.

Today, around half the world's habitable land is used for agriculture and this is still not enough to meet our increasing consumption of resources. The average person in the UK consumes four times the resources of a person in India. In the US this figure is seven times (Attenborough, 2020). If the world's entire population adopted the average diet of the US we would need to convert all our habitable land to agriculture and would be 38 per cent short. For a New Zealand diet we would be nearly 100 per cent short (Ritchie, 2017).

It is population growth and more specifically the unsustainable consumption of resources that drive both climate change and loss of biodiversity, as well as creating their own threat, and here it is the poor that have the most to lose. Richer countries will adapt or migrate to other parts of the world, but poorer countries will lack the ability to do this. Expect very real challenges about how to feed and sustain those on the planet. Expect one million climate migrants by 2050 – all desperate to leave parts of the earth that will become uninhabitable.

Resources have been getting scarce for some time now (Hieber, 2002) and will continue to do so as global demand continues to accelerate. The idea that the earth's resources are freely available has enabled global corporate prosperity, however this idea is set to be replaced, with corporates having to be more accountable for what is taken from and put back in to the planet. Scarcity, increased accountability and likely future taxes on use of resources will compel organizations to rethink what they use directly and through the supply chain. This together with increased volatility of supply chains due to climate change (and other risks I will cover shortly) brings new challenges for procurement, in particular how we structure and manage our supply base, and even what the core activity of the organization is as opposed to what it buys. More on that shortly.

Better, responsible, faster, cheaper, low-touch and delivered to my door

What we want as consumers is changing too, with forward-thinking companies reshaping what they do to meet changing consumer expectations, all reshaping the global supply base and how supply chains operate. 'Better, faster, cheaper' are still tickets to the ball park, forcing organizations to compete or die, but now today's consumers have other expectations. Covid-19 drove new consumer behaviours around avoiding touch and contact. When we were no longer required to socially distance, few rushed to go back to where we were before, opting instead for a degree of distance. The personal space we seek has widened and will remain so for some time to come. We expect new visible hygiene measures and have become used to low-contact interactions with others. Cash and key pads to enter credit card PINs are in their death throes and we now avoid or reject handshakes and kisses on the cheek. De Mey and

De Ridder (2020a) define this as the new ‘Low-Touch Economy’ that will define our lives for years to come.

What we want and how we want to get it as consumers is changing. Prior to Covid-19 physical retail outlets were already feeling the pain from their online competition. For those that survived, the race is on to redefine the purpose of the physical presence and reinvent retail. The idea of going to a place because we need to shop now feels a little old-fashioned; yet going to a place because we need to evaluate something, try it on, get help to know what we need or because it is part of an experience will be the new purpose of a physical space. Most outlets had already built an online presence that before Covid-19 was secondary but gently building. Covid-19 switched things for many, making a company’s digital shopfront the main event and redefining the role of physical outlets to support it.

Expect retail to continue to redesign itself and the customer experience to pursue new differentiators that respond to changing consumer expectations. We expect ‘cheap’ but we don’t need it. We are more affluent and have greater choice than ever before and we know where to find the best deal, yet we are prepared to pay for something unique, exclusive or personalized for us. Where standardization once helped make companies efficient, presenting the customer with a limited set of choices, now it is the ability to deliver something unique to every customer that is opening up a new differentiation opportunity enabled through modular production and using new technologies such as 3D printing. Time is of the essence too. Home delivery was doing very well before Covid-19 with a steadily growing uptake; now it is *the* way we get things, with huge new logistics operations in place by big providers, capable of, in some cases, delivering our order within hours of it being placed.

As I started to outline earlier, a further factor in our changing expectations is sustainable consumerism. We are increasingly aware of the importance of protecting and preserving our environment and also increasingly aware that many of the brands we know and trust have not been doing quite as much in this area as we previously assumed. Across the wide range of statistics that seem to be published in this area one thing stands out, and that is that many shoppers now try to shop more sustainably, with figures greater than 60 per cent quoted by some (Granskog et al, 2020). However, shopping ‘sustainably’ is a rather vague term and seems to mean different things to each consumer. For some it is avoiding plastic, thinking about recycled or buying local, for others it is looking at where it comes from. There may not

be any common thinking here just yet, and actually doing it still lags behind intention, yet what is clear is that consumers now expect brands to be sustainable, whatever that might mean.

Changing consumer expectations as the world redefines itself for the new normal means 'Better, faster, cheaper' is now 'Better, responsible, faster, cheaper, low-touch and delivered to my door'. B2C companies will continue to respond by reengineering their business models and what they do – all driving shifts in what organizations need from their supply base and in some cases completely redesigning the supply base for a new business model.

Changing organizations and the new era for the workplace

Covid-19 brought about a new era for the workplace and with it a complete redefinition of how our suppliers are organized and operate. As companies all over the world sent everyone home in the early months of 2020, once the initial panic subsided, most workplace activities carried on just fine. The flagship headquarters of giant corporates, used to housing many thousands of employees, fell empty. While we may have expected this to be the end of the physical workplace, we actually saw most business operations continue and we became thankful for no longer having the dreaded morning commute. Front-line radio broadcasters presented their shows from their spare room with just a few bits of specialist kit and no one noticed the change. Musicians erected acoustic panels inside wardrobes and climbed in to record their new albums and some companies even had specialist laboratory equipment transported to the homes of their staff so they could continue to conduct research from their garages. We learnt that many of the things we used to do in the workplace could be done remotely, and that Zoom and MS Teams are effective ways to keep in contact, once we got used to them. We also found new ways to balance work and family demands in a homeworking model. Out of the ashes of Covid-19's enforced lockdowns rose a new hybrid working model in 2021, one where the purpose of the physical business facility was redefined to be where manufacturing or service delivery happens and a place where individuals now working from home gather from time to time to meet, interact and create. Everyone is a winner in the new normal (Choudhury, 2020) and technology-enabled team working has allowed organizations to reduce their real estate footprint, cut costs and emissions and, perhaps surprisingly for some, increased productivity and commitment. Employees who have adapted enjoy greater quality of life without the need for the daily commute.

The new hybrid model also changes the profile of global teams. Once, where you lived and proximity to the office or operating location was a key consideration in the recruitment process. Now, for many of us, this has given way to the new ‘work from anywhere’ model. The same changes have happened within our suppliers and across our supply base. Where we once considered a supplier as an entity ‘housed’ in specific operating locations, enter the new global network-based supplier comprising the best available talent in the world and multiple contributors, each located in the optimum physical location connected by and operating through increased use of technology. If this new operating model seems incredible, we ain’t seen nothing yet, because the possibilities are only just beginning to be grasped.

This means we need new ways to understand our suppliers, assess risk and manage key relationships. Where we once may have audited a physical location, we may now be evaluating a network and all the cross-border and data security implications that brings, yet the shift in how our suppliers are organized is likely to deliver a step change in the available innovation that comes from pushing past the constraints of being housed in a physical entity, connecting the best talent in the planet to realize new possibilities. The new challenge for procurement is figuring out how we can access this to increase our competitive advantage and stay in control of it.

Globalization – slowbilization – localization

‘Globalization’ is not a precise thing but rather a word that has come to be used to explain how modern companies trade and operate. It is also something that has ebbed and flowed as the world around us has changed. The world has been becoming a much smaller space for decades as globalization became the driver of economic advantage, with our daily professional and personal lives having been enabled and enriched by suppliers all over the world. Securing lowest cost in the market for non-differentiated and commonly available goods and services stopped being a specialist activity. Globalization meant that marketplaces with wider or no boundaries opened up, offering huge choice and alternatives. Somewhere in the world there was a willing, cheap and sophisticated capability, and waiting in the wings was the next emerging market ready to do even better, even faster and more cheaply. Globalization once ruled and today it is still alive and well, but it has been dealt several severe blows in recent years, although it is not on the ropes just yet.

Once companies outsourced, divested and focused on their core competencies, shifting sources of supply to low-cost country providers in other part of the world. Now, however, bringing things closer to home and vertical integration has, once again, become an attractive proposition for many. Haven't we been here before? Rewind the clock 50 years and you will find organizations that did everything. Didn't someone then tell us not to do this but to stick to the things they know and are good at, and outsource everything else? Sure, but things have changed! While risk and volatility may be driving vertical integration in some parts of the Western world, elsewhere the big conglomerate organizations are returning. Wooldridge (2013) reminds us that in the 1960s and 1970s we witnessed the birth of corporate giants such as ITT (amassing 350 acquisitions or mergers in 80 countries during its time) only to watch many, but not all, of these business giants become dinosaurs over the next three decades, possibly because any core competency long since became diluted by size and diversification. These conglomerates are now re-emerging. Highly diversified companies are appearing, driven by opportunism, ease of communication and global commerce, but also as a result of government incompetence: in a third-world country where social investment is lacking, industry still needs a fit and educated workforce so companies quickly start building, owning and operating schools, hospitals and our necessary amenities. These companies also acquire other facilities, processes and resources as needed. For example, Tata Steel now has more than 100 companies and makes cars, is a chemical company, has its own consulting business, owns its own hotels, is a significant player in power generation and produces tea.

Not so long ago, the fact that our suppliers existed half way around the world did not matter. We found ingenious ways to have factories and service centres that put the Western world to shame and we figured out how to move things around the globe inexpensively. We even began to think about the welfare of those working in such facilities. Now there is a shift in how we view remote entities. What we once saw as an opportunity we now see as a risk, exposed by Covid-19 and other political instability. In 2020 'slow-bilization' became a new word and many organizations started to throttle back on sourcing globally. Some started to consider if it was time to look to new markets while others started to welcome back localization, reshoring, and even vertical integration of supply chains in order to regain control and transparency – more on that shortly.

Also in 2020, and after four years of uncertainty, the UK finally left the European Union. Brexit initially sent shock waves around the world and challenged the role of the EU and its defining principles. In the end, the finalization of the divorce passed by and everyone got on with things. A few initial supply chain disruptions were resolved and the changes begin to take effect. Some companies relocated, opportunities for new tariff-free trading relationships with new countries emerged and organizations went about making the necessary changes. In the end everything continued just fine.

At the same time, across the Atlantic, President Trump was waging a US war against globalization and turning the country's back on trade deals with the rest of the world in favour of reigniting industry within the US (Elliott, 2016). The trade war with China that started in the Trump era looks like it is here to stay in some form, with allies wading in on the geopolitical battlefield.

Tensions with China will impact us all, not least the 11 nations in South-East Asia wary of China's play for more dominance in the region and supportive of the US and other allies in countering any threat from China while fearing any conflict that would ultimately prove disastrous for them.

It is China's moment on the world stage. As other big powers retract, China is ready to push forward while other countries deal with the deficits left from stimulus packages for Covid-19 and weather the storm rewriting economic text books to prevent recession getting a grip. China continues to be home to unsurprisingly fast rates of growth that outstrip the rest of the world recovering from the Covid-19 economic slump. During the pandemic China supplied most of the world's face masks and sanitizer and also TVs and other electronics to meet the increased demand for home or personal entertainment. It is also investing heavily in infrastructure globally. China's alliance and economic support for Africa will make it best friends with Africa, potentially housing the workplace and agricultural land of the future.

The West's disputes with China mean that the trillion-dollar supply chains are up for grabs. India is waiting in the wings, if it can recover from the fact that Covid-19 crushed its economy. However, even before then, India was struggling – government finances were stretched even before Covid-19 and companies found its virtues more evident in theory than in reality, with GDP declining since 2016 (Easton, 2020).

Outsourcing is not dead, nor is the concept of focusing on core competencies. For many organizations it will continue to make sense to offshore manufacturing or other services and take this risk. Some have begun to lose

confidence in globalization and no longer see it as the obvious powerful engine of economic growth for business but rather one that now comes with a greater level of uncertainty and risk. For others, though, the pendulum has already swung back and it now makes sense once again to return to onshoring or even reversing the make-vs-buy switch. Add to this the sustainability imperative and corporates now taking real steps towards reducing emissions and suddenly it matters how many miles things have to travel. That's not all. Covid-19 reignited our relationship with local, with a new shared sense of keeping our local economies going, reminding us how good it feels to support a local provider rather than a global giant, especially if they could deliver to our door. It seems that localization, vertical integration or even wholesale acquisition now have their place too along with new forms of collaborative partnership with key providers.

This presents a wave of new demands for procurement and how we manage our supply base. The minimum we can expect to have to do is establish ways to have greater confidence in our global supply chains, but more likely we will have to shift away from some established sources of supply to new, more dependable territories or suppliers. We may also find we need to lead a restructuring of the supply base or even help bring something back in-house. What happens in our supply chains now matters and it is not just risk and security of supply that are driving the need for change here.

PPE, THE PANDEMIC AND ONSHOREING

The Covid-19 pandemic exposed a lack of preparedness globally as those providing healthcare around the world rushed at once to buy unprecedented levels of personal protective equipment, face masks and ventilators. It also exposed the fragility of relying upon global supply chains. Prior to the pandemic, much of the supply of these items originated in China and this supply largely dried up at the most critical time of need. Healthcare providers around the world got creative and found alternative sources of supply by asking trusted suppliers closer to home to retool to help manage the crisis. Companies including Apple, Airbus and BP were approached to produce PPE; Kimberly-Clark and 3M set about expanding face mask production; and companies including GM, Dyson, Airbus and Ford were approached to be ready to make ventilators (Cliffe, 2020). Covid-19 drove a shift in how healthcare

providers viewed such items. No longer were these consumable items where procurement teams would seek to leverage the best price from a global marketplace. Overnight they had become strategically important items with security of supply being paramount. As the demand on healthcare providers subsided, procurement teams set about implementing new permanent sourcing arrangements based around onshoring together with contingency arrangements to provide surge capacity with trusted suppliers.

A changing supply base and entire new industries

All of these shifts and changes are redefining much of our global supply base and will continue to do so, and it's not only individual suppliers or where and how they exist that are changing. Entire industries are changing. It is hard to imagine a company whose core business is fossil fuels being a major player in the future unless it is capable of completely redesigning its core business and routes to market. Industries where people get close were brought to their knees in 2020. Airlines, performing arts, restaurants, concert venues and so on were dealt the toughest blows and although many have bounced back, such industries will continue to have a tough job making people feel comfortable being in close proximity to others without a complete redesign of what we knew before. Aviation has been the slowest to begin to recover as the demand profile has completely changed. The need for a large percentage of business travel has evaporated as corporates found they could manage just fine without it. Add to that the continued likelihood of restrictions on international travel to some countries as Covid-19 variants emerge and subside around the world. Then there is the need to address the 1.9 per cent of global emissions produced by aviation, emissions that are more impactful as they occur in the atmosphere, so we can expect companies to start taking this seriously, especially if they face a carbon tax for business travel impact. Yet there is a new bright future as demand to travel will prevail. Perhaps the future aircraft will run on sustainable aviation fuel or new forms of propulsion still on the drawing board, and with cabins that hold fewer passengers, with seating organized to make passengers feel less close to fellow travellers and strict health passports required to move across borders. A new dawn of different and sustainable air travel will come.

While the light from some entire industries may be growing dim, others will adapt and re-emerge, and then there are the new shoots of entire new industries born out of necessity or seizing the opportunities our changing landscape presents. Renewable energy production has only just got going and is yet to have its day, as will the next-generation low/no emission automotive industry once battery and charging technology, and crucially charging infrastructure, advances a few more notches. How we heat our homes and cook will change and we will all be switching technology as governments legislate against old fossil fuel burning systems. Then there is the complete overhaul of the electricity supply infrastructure to meet the new demand as everything goes electric. Space is the new frontier, with countries all over the world racing to capitalize on access to new resources, establish new communication networks or establish 'off-planet' military facilities, and clever and more agile logistics to meet the desire for 'delivered to my door when I want it'. There are many more besides. Procurement will be figuring out how to source from and manage suppliers in these new industries but crucially at the heart of these shifts is an unprecedented level of technological innovation and new capability which could benefit our organizations in yet undetermined ways if we can join the dots.

The changing supply base is also now home to a new generation of super-sized corporates that are huge in terms of wealth, size and crucially, power, that we will all depend on for the essential products or services they provide, access to data, and the routes to market they control. Today these include Amazon, Alphabet (which owns Google), Microsoft, Facebook and Alibaba followed by future players in this space which include many of the second-tier tech companies snapping at the heels of the behemoths. If we want to be effective, we will have no choice but to rely on these players and manage our relationship with them to maximize our position.

What happens now in our supply chains matters

Once companies needed only to concern themselves with their immediate supplier and customer with whom a contractual relationship existed. That is changing and it seems organizations are taking different approaches out there. The common factor, however, is that organizations are realizing the need to better understand and have more confidence and control over supply chains, work closely with key players and realize greater value from them.

As we have already seen, risk and security of supply are key drivers here, as is sustainability. Sustainability in the supply chain has always presented the biggest challenge, especially where entities in the supply chain or the original producer, raw material, plantation or factory are many contractual steps removed. They may exist in other geographies where attitudes, standards and compliance are very different. Organizations that have begun to do this well only really manage to devote resources to the handful of suppliers and supply chains they deem the most critical. Yet the rest of the supply base, in particular the lower tiers, may well hide the biggest risk areas. When other shifts in the nature of global supply bases and workplaces are added, it soon becomes clear that realizing sustainability in the supply chain presents significant challenges. It is possibly the biggest, single-most unconquered territory facing procurement today and there is now a seismic shift towards doing this.

There is potential for growth and opportunity too by managing an entire supply chain. New competitive advantage is possible through new upstream relationships with players and creating transparency of everything that happens before we receive the goods or service. Creating new brand propositions based around sustainability is possible if we can demonstrate what has happened in our supply chains. Coffee packaging with a photo of the farmer who grew the beans or an appliance that states the volume of emissions that were produced to make it may well be future differentiators to drive revenue.

Procurement has the role to make this happen and one where supply chain management and procurement converge around the need to understand and be able to influence and manage the entire supply chain.

HOW THE HORSE MEAT SCANDAL ALLOWED MORRISONS TO PUBLICLY DEMONSTRATE THE CONFIDENCE IT HAD IN ITS SUPPLY CHAINS

Back in mid-January 2013 Irish food inspectors announced they had found horse meat in some beef burgers stocked by UK supermarket chains. The story was headline news, retailers cleared shelves and consumers emptied freezers. Weeks later the international frozen food producer Findus was forced to announce that one of its beef lasagne products had been found to contain up to 100 per cent horse meat. Consumers felt betrayed and checked their freezers once more and the entire UK food industry started to check supply chains. The government ordered DNA testing across all beef products on sale and the

concern soon spread across Europe and beyond. Up to 100 per cent horse meat was subsequently found in several ranges of frozen food in the United Kingdom, France, Switzerland, Germany, Sweden, Austria and Norway. Then new concerns emerged that a drug used to treat horses which is harmful to humans could have entered the food chain. Meat was traced from France, through Cyprus and the Netherlands to Romanian abattoirs. Investigations suggested that the use of horse meat was no accident but part of a criminal conspiracy some way back up the supply chain to take advantage of the fact that the cost of horse meat is typically a fifth that of beef. As many retailers were forced to issue very public apologies, others used the scandal to create a competitive advantage by showing how vertical integration of their supply chains meant their products were safe. The UK retailer Morrisons was one of these and was quick to allow TV cameras to film its own meat processing and packaging plants using meat supplied by its own abattoirs.

The big rethink on supply base contribution – enabled with SRM

We have begun our journey through Supplier Relationship Management by reflecting on our changing landscape. It is clear that procurement functions have a pivotal role to ensure the success and competitive advantage of organizations into the future and a key enabler here is SRM. If it was important before, it is essential now. We have covered a lot of ground in this chapter (summarized in Figure 1.1) and what emerges is the importance of procurement further developing its strategic role in organizations. Procurement is already a strategic function in many, but not yet all, global corporations where it has earned its stripes and this strategic role, and the value it needs to deliver, will only continue to build with how we determine, understand, engage with, manage and optimize our supply base and all of our supply chains in support of realizing our corporate goals. However, as we gaze out from aboard our rocket ship of change and view the changing landscape below us it is clear we may need to do more than this. In some areas, procurement will need to rethink the role of the supply base and even lead the way for the wider organization to rethink and redefine its core proposition enabled by new supply-side possibilities.

Procurement shouldn't be all alone here; enter the supply chain function that has until now been largely regarded as a separate function. However, it is abundantly clear that our frame of reference needs to look at the end-to-end supply

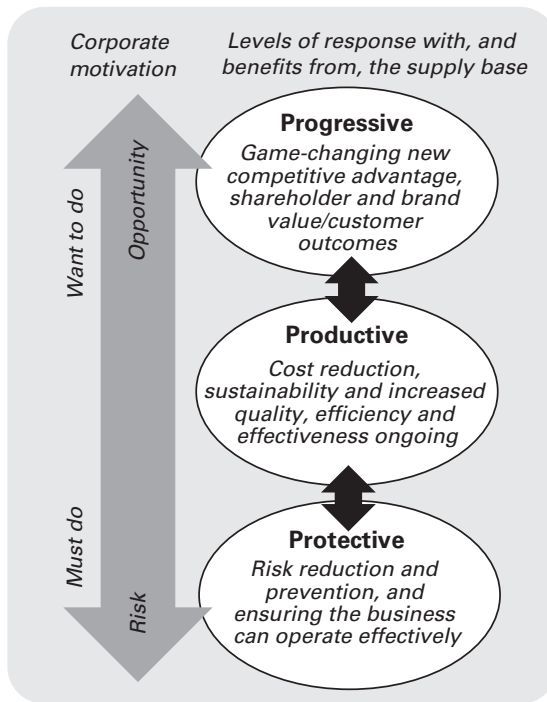
chain from raw material, factory or agricultural origin right through to the end customer. Where once procurement and supply chain were separate functions with interests and remits that rarely collided, now convergence is essential.

We have long since realized that in highly competitive markets, the simple pursuit of market share is no longer sufficient to ensure probability and, thus, companies have focused on redefining their competitive space or profit zone (Bovet and Sheffi, 1998). Companies have progressively bought more components and services from suppliers than they used to and relied upon their suppliers to reduce costs, improve quality and develop new processes and products faster than their rivals can (Liker and Choi, 2004). Organizational survival and prosperity now demand innovation and differentiation like never before, and it is here that leading organizations are already turning to their suppliers also to help find breakthroughs: *how* the goods are manufactured is equally a part of the breakthrough as the breakthrough idea itself (Markillie, 2013). Now the game just got more interesting and future potential is secured by recognizing the supply base as the single most important enabler of competitive advantage, brand value and growth to build shareholder and brand equity or to return social value to citizens, patients or society. The big question is how do we do this. And that is what well-implemented Supplier Relationship Management can deliver.

What we need from our supply base – Protective, Productive and Progressive responses

Before we get to that, determining what we need from our supply base is our starting point for SRM. As I suggested at the start of this chapter, this might seem like a straightforward thing to do, but it is something many organizations struggle with, especially if the role of the supply base needs to go beyond fulfilment. In fact, determining what we need from our supply base can only flow from the overall goals and strategy of the entire organization from which we can determine our response. This is the very thing that defines what SRM is for the organization and there are three distinct levels of response possible, each linked to degrees of benefit, directed towards or secured from our supply base (Figure 1.2). Which levels we choose to operate at depends upon the degree of corporate motivation and focus on opportunity versus risk.

FIGURE 1.2 The three levels of response with, and benefits from, the supply base



At the most fundamental level, organizations need a *Protective* response. Any organization that does not take seriously, and respond to, the real and increasing supply-side risks in all their forms faces an uncertain future, if any future at all. Protective benefits from the supply base are those that reduce and prevent risk and ensure the business can survive and operate effectively.

Next, securing a more *Productive* outcome from certain suppliers can drive a range of increased value outcomes. Reduced cost would be part of the potential here and many SRM initiatives pursue cost reduction, yet this does not tend to be the primary reason for an SRM programme. Instead, improvements in quality, efficiency and effectiveness (which may well translate into cost reduction somewhere down the line) and more relevant today is implementing sustainability initiatives with key suppliers and supply chains. This may present challenges in justifying our SRM programme if we cannot show direct financial benefit, yet non-financial benefit is often a key feature of SRM and one that needs new approaches and an organization receptive to these to demonstrate success. We will return to this later.

The ultimate level of supply-side response is one that seeks to be *Progressive*, with certain suppliers that hold the potential together with us to unlock game-changing new competitive advantage, shareholder and brand equity or, in the case of non-commercial organizations, better customer/citizen/patient outcomes. Progressive benefits may also be about securing new brand or company advantage through sustainability, eg creating a new eco brand enabled by sustainable supply chains.

Protective, Productive, Progressive defines how we begin to interpret the concept of SRM within our business. It provides the basis for how we respond to corporate goals and strategy and determine what we need from our supply base in its entirety and also for individual suppliers. It also helps us clarify the nature of benefit we need from an SRM programme and therefore where best to direct our resources. All we need to do now is figure out which of our suppliers are important enough to spend time and precious resources on, why they might be important and therefore the specific *Protective, Productive, Progressive* interventions we will deploy with these suppliers. That is what the rest of this book is about, starting in the next chapter with an approach to determine the specific forms of value we need and want from our entire supply base and chosen individual suppliers.

02

Five good reasons to get close to our suppliers

This chapter explores the potential and different types of value available from the supply base to an organization when the right type of intervention or supplier relationship is effected. The types of value are defined in a hierarchy that represents the different reasons for pursuing interventions and relationships with suppliers and each level is explored in detail.

Pathway question addressed in this chapter

- 1 What is the contribution we need from our supply base and why?

Setting the direction for SRM

Implementing SRM in an organization is about asking three fundamental questions:

- 1 Which suppliers are important to us?
- 2 What makes them important?
- 3 What are we going to do with them?

At first glance they seem simple enough, but in practice these three questions can be the hardest to answer. As we have seen, forward-thinking organizations are seeking to navigate through a rapidly changing world and survive and thrive long into the future. They are doing this by figuring out new ways to engage the supply base with a range of *Protective*, *Productive* or *Progressive* interventions with the supply base and the resultant value these can unlock.

Even more challenging is the fact that our interventions need to align with what the organization is trying to achieve overall. It is easy to say ‘Let’s collaborate more with suppliers’ or ‘We need innovation from the supply base’, but why and for what purpose? Unless we can be clear about this then these are just directionless aims. Worse still, if our suppliers were to suddenly start bombarding us with innovative ideas because they have been asked to then these are irrelevant if they are not aligned to our mission, and even if this is the case their effort is wasted unless we are ready and equipped to do something with the new ideas. Add to this the fact that interventions with suppliers demand time, effort and perhaps investment: we have to be clear that anything we do will be worthwhile.

A good SRM approach is therefore one where we know precisely which suppliers are important and why they are important at any given time and from this we are targeting our precious resources into the relevant *Protective, Productive or Progressive* interventions with those suppliers in support of corporate objectives. It is as simple as that. Yet many organizations’ SRM programmes fail to get very far. One of the main reasons is failing to adequately understand the supply base or appreciate its many and varied suppliers or the multitude of reasons suppliers are there in the first place. A second is failing to think about the contribution or value we might want from our supply base beyond simple fulfilment. We will now explore both these factors and how we take our first steps towards implementing SRM.

Supplier – friend or foe?

In my opinion [Ford] seems to send its people to ‘hate school’ so that they learn how to hate suppliers. The company is extremely confrontational. After dealing with Ford, I decided not to buy its cars.

Senior executive, supplier to ford,
october 2002, quoted by liker and choi, 2004

An organization that views its supply base simply as the collection of suppliers who provide the goods or services requested of them is missing the point. For many global corporations the role the supply base is expected to perform is now one that is much more enabling, integral and even pivotal to success and future value.

Machiavelli is quoted as saying ‘Keep your friends close and your enemies closer.’ What he was suggesting is we always want to have good relationships and keep our friends close as those are the people we can trust and rely upon but that we should always keep an eye on what our enemies are doing in case they try to hurt us. So is a supplier a friend or an enemy? It is easy to find examples of organizations that treat suppliers as both or as neither. Considering suppliers as enemies could be viewed as unproductive and confrontational. However, that is just how many firms treat their suppliers: using clever leverage tactics to gain an advantage – and why not in many cases as they are playing the same game on us? Similarly, it can also be disadvantageous to view suppliers as friends, an approach that can give them power over us and work against us, yet this could also be the approach that creates winning collaboration.

Rethinking the ‘arm’s length’ mindset

The traditional, and highly tactical, view of suppliers is that they are there to supply what we require when we say so and we, as the customer, are the one in control and of course the customer is always right!

This ‘one size fits all’ view of suppliers as subordinates is one that seems to arise from the way we as buyers have learnt our profession. Principles of ‘arm’s length’ relationship, transparency and keeping suppliers ‘in their place’, finding leverage and assuming the controlling role seem to underpin most standard procurement theory. Furthermore buyers are taught to watch out for suppliers trying to find ways to grow an account by creating added value extras and to be wary of upselling of new products. Such approaches may be entirely appropriate for the majority of situations, but not all. There are typically a small number of suppliers with whom a more collaborative and mutually beneficial form of intervention and interaction is appropriate. To realize this, we need to rethink some of the basic principles we as buyers learn, but with the maturity to know when to leverage and when to collaborate. To illustrate this, think about the way people learn to drive. In the United Kingdom people are initially taught to place their hands on the steering wheel at ten to two (as per a clock face) and to feed the steering wheel through the hands, never crossing them. However, this technique is generally unsuitable for advanced situations such as where police and other services might need to respond to an incident at speed with a high degree of manoeuvrability in cornering. Advanced driving tuition for experienced drivers

therefore teaches people to move away from this in favour of larger sweeps. The point is a driver needs to unlearn the basics in order to progress to a more advanced form of control and know what to use and when. The same is true for supplier relationships and, for a small number of suppliers, buyers actually need to unlearn the standard mindset in favour of a new paradigm that recognizes different, more collaborative and integrative relationships are more appropriate for certain suppliers, perhaps even going against the basic arm's length principles. By doing this, great things are possible, and suppliers can bring significant added value and make a dramatic contribution to business success. Failure to change our mindset for these few suppliers can halt opportunity, introduce unnecessary conflict and act as a disincentive for suppliers in terms of bringing additional value over and above what they are contracted to provide.

The different types of supplier relationship

As well as the many different types of supplier, there are many different types of relationship we can choose or wind up in with a supplier. The challenge is ensuring we have the right one and we are as in control of the process as we can be. There is also much terminology out there with a variety of different labels that seem to mean different things according to who is using them; one person's *strategic supplier* is another's *preferred supplier* and so on. The point is, amongst these labels is a recognition that there are different types of supplier relationship. It doesn't matter what label is used, it matters that within this we adopt the right relationship with the right supplier and for the right reasons and we all understand what we mean. Table 2.1 lists those commonly found and these are mapped according to the importance to the business and the intensity of relationship in Figure 2.1.

Defining the value we need from our supply base

Here is where our journey towards SRM begins. The starting place is to determine the direction for our SRM initiative, which starts with what the organization needs. We must identify the specific reasons why we need or want a relationship with certain suppliers, ie the problem we are trying to solve or the corporate goal we are trying to reach and therefore what additional value we are attempting to secure. Only then can we begin to

TABLE 2.1 Common types of supplier relationship

Relationship type	Explanation	Typical nature of relationship
Arm's length supplier	A simple and commonly found buyer/seller transactional arrangement for named goods or services.	<ul style="list-style-type: none"> Contractual fulfilment only, perhaps no or little interaction beyond communicating the requirement (eg via an order) and fulfilment.
Subcontractor	A supplier, usually of services, engaged to complete a specific task or supply a package of work, perhaps as part of a bigger project or to deliver the entire project. Examples might include construction trades on a building site, software contractors.	<ul style="list-style-type: none"> Typically involves communication of detailed requirements and interaction regarding technical or specification matters. May be working alongside our people and other subcontractors. Can gain know-how of our needs that can afford them an advantage.
Preferred supplier	A supplier who has a formally or informally recognized status as one who is mandated or selected in preference to other suppliers.	<ul style="list-style-type: none"> Potentially defined within a framework or master agreement where the terms of engagement, and perhaps even commercial terms, have been agreed in advance. Preferred status might be defined within a list or instruction to those with buying authority. Assumes and requires a degree of centralized control over the company's procurement.
Outsourced provider	A supplier who has taken on responsibility to fulfil a core activity and requirement or function of a company, perhaps one previously fulfilled in-house. Examples include outsourced call centre, cleaning, data management, IT support.	<ul style="list-style-type: none"> Close, day-to-day interaction at an operational level. Relationship and contract built around performance and operational management.

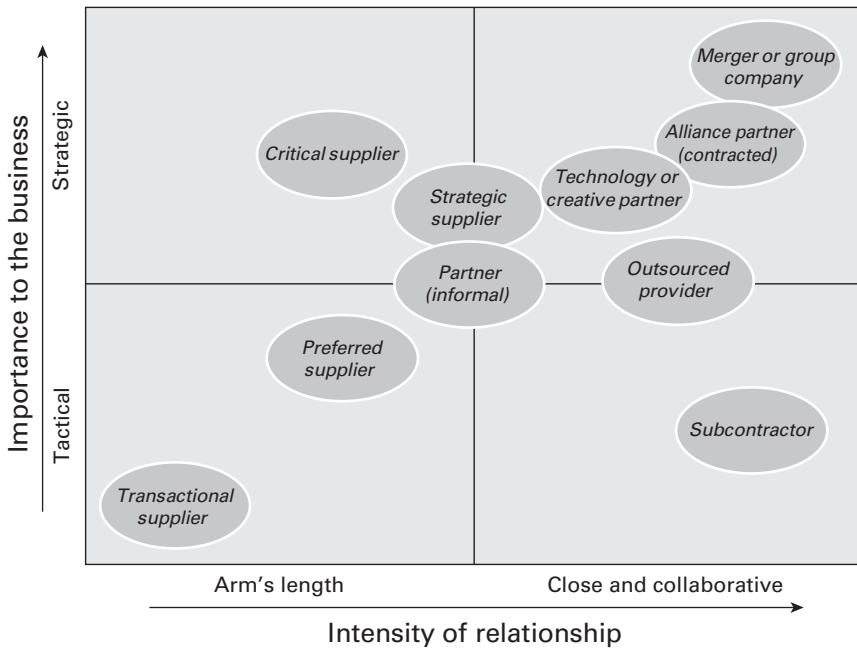
(continued)

TABLE 2.1 (Continued)

Relationship type	Explanation	Typical nature of relationship
Critical supplier	A supplier who fulfils a requirement that we cannot do without, and where we cannot easily switch suppliers or source elsewhere.	<ul style="list-style-type: none">• Should be one where we work to develop a good relationship with the supplier, however many companies fail to identify critical suppliers and place themselves at risk.
Strategic supplier	A supplier who is of strategic importance and has something that can help enable our business to realize our goals and aspirations, eg innovation, complementary offerings, capacity, know-how, coverage.	<ul style="list-style-type: none">• Needs to be very close and collaborative in order to realize the potential but this often falls short.
Partner	Perhaps called an <i>Alliance Partner</i> , <i>Technology Partner</i> or <i>Creative Partner</i> . Parties have agreed to work together, perhaps with some sort of exclusive arrangement. The arrangement could be informal or a formal contract and even incentives might exist.	<ul style="list-style-type: none">• Needs to be very close and collaborative in order to realize the potential but this often falls short.• Close day-to-day interaction in the area concerned (eg at a technical level).
Group company	A supplier who we own or is owned within the group.	<ul style="list-style-type: none">• Relationship should be ‘as if one of us’, however if the company is separated by distance, culture or organizational structure or has recently been incorporated into the group, the relationship can be no different from that of a preferred supplier.

determine what the required relationship and intervention should look like and with whom. As we have seen, SRM requires a selective approach. We cannot have a relationship with every supplier; for many suppliers we simply need them to provide what we want, on time, in full, to the agreed budget or price. For others some form of intervention may be necessary to keep things on track and yet, for perhaps a small number of other suppliers,

FIGURE 2.1 Intensity and importance for different types of supplier relationship



it is possible to secure much greater value; value that can, in some cases, make a dramatic and game-changing contribution to our business. Our supplier base therefore harbours huge potential, ranging from the potential to prevent damage to our business through to the potential to add great value to our bottom line and help us grow. All we need to do is decide what we need and then go and get it, and here we use the VIPER model: five headings that define what is possible from the supply base and therefore five good reasons to get close to suppliers; five good reasons for intervention or to build supplier relationships; and five headings that allow us to define our requirements for the relationship. In fact, VIPER sits at the heart of SRM and sets the direction for the initiative organization wide and with specific suppliers.

The VIPER model

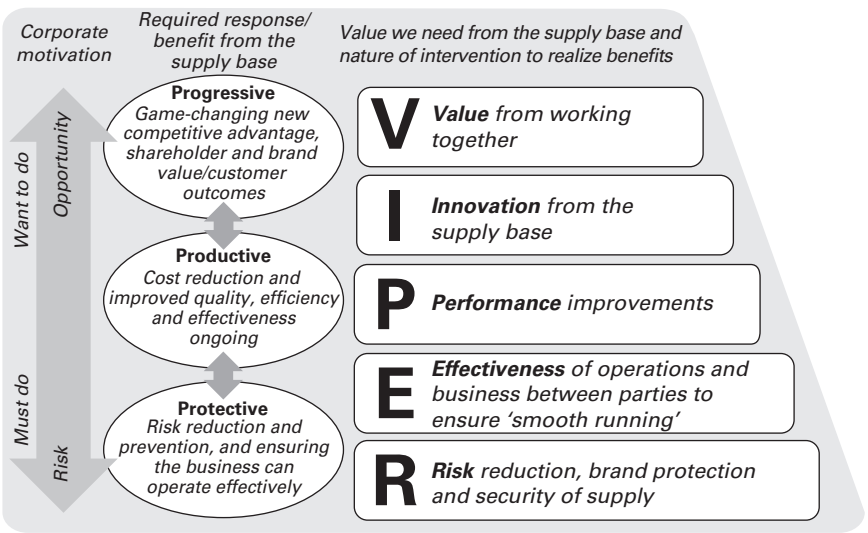
VIPER is a model used to determine the value the organization needs and wants to realize from the supply base (Figure 2.2). VIPER stands for *Value*,

Innovation, Performance improvements, Effectiveness (of business and operations) and Risk. VIPER also defines our different requirements and the reasons for instigating some sort of relationship or intervention with a supplier. VIPER is a hierarchy that ranges from intervention that is essential to additional value that could be realized should both parties put the energy into realizing it. VIPER aligns to the potential supply-side Protective, Productive or Progressive response and/or benefits we might determine we need. VIPER also begins to provide the framework to connect the goals of the organization to specific supplier interventions. VIPER therefore operates at two levels within an SRM approach:

- *Macro or organization-wide level* – to define the high-level requirements of the organization and specific types of value the organization needs from its supply base, eg ‘to secure a new technological capability’ or ‘to find key partners to outsource current business activities’.
- *Individual supplier level* – to define the specific relationship requirements and the nature of intervention needed with individual suppliers. At this level VIPER is used in response to supplier segmentation (covered in Chapter 4).

Once we are clear *why* we might need or want a certain type of intervention with a specific supplier, ie what value we wish to secure, then we can set about *how* we achieve this and *what* type and nature of relationship is needed.

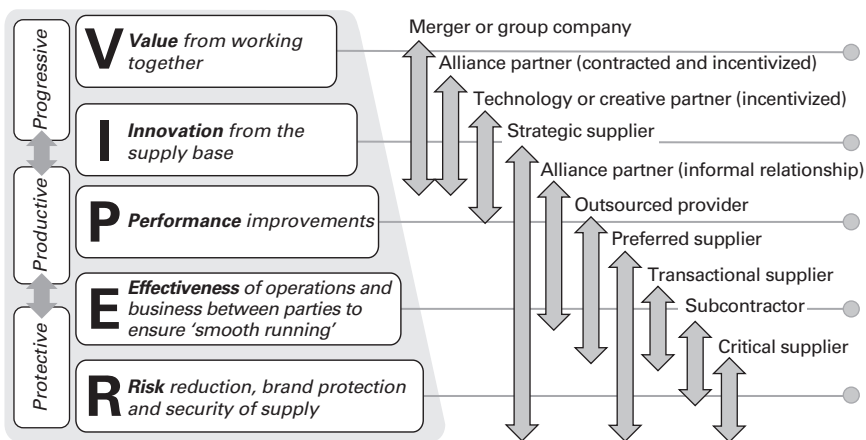
FIGURE 2.2 The VIPER model



It is notable that *price* or *cost* are not called out as individual themes within VIPER. This is because there can be a conflict between the sole pursuit of reduced price and cost and that of developing a close relationship with a supplier. In a sourcing scenario where there is little risk, we have plenty of alternatives, where we can easily switch suppliers and we hold leverage, then there is unlikely to be much need for a relationship with the supplier or indeed any sort of special intervention beyond the transaction. Instead we simply need to use our leverage in the marketplace to secure the best value for the lowest price. Yet there are other supply situations where only collaboration will deliver benefit, perhaps even including that of reduced price and cost, perhaps because reaching the goal is only possible if parties work together. Price and cost alone are therefore not normally reasons to pursue a supplier relationship unless some sort of relationship is necessary in order to achieve price and cost goals. Nevertheless price and cost can be consequential and beneficial outcomes across the entire VIPER framework.

The value required is typically not considered, instead organizations go straight to implementing a relationship that seems about right. Where a firm needs innovation it seeks a technology partner. Ask a site foreman of a construction company why he is managing subcontractors in a particular way and he is unlikely to describe a definition of value needed using the VIPER model, instead he just knows what he needs and does it. There is a natural correlation between the nature of the relationship organizations establish with suppliers (as covered in Chapter 1) and the nature of value that is important in each case (Figure 2.3). This correlation reflects what organizations

FIGURE 2.3 Correlation of VIPER to types of supplier relationship



tend to do, rather than what necessarily should happen. The point here is that determining the nature of the relationship according to the value required is a crucial step, and one that is often missed. The VIPER framework therefore forms an integral backbone to SRM and one that we will come back to throughout this book. However, first I will expand on each component of VIPER, starting with risk.

'R': managing supply base risk

The most critical reason for supply base intervention is the effective management of supplier and supply chain risk. Taking steps to prevent crisis or catastrophe, or at least be prepared for it, is arguably the greatest source of value an organization can secure from the supply base. 'Risk' therefore forms the foundation of the VIPER hierarchy.

There are certain areas of spend where a failure in the supply chain can present significant risk to an organization. The severity of this risk can vary significantly. Goods that turn up wrong or a service that underperforms can be an inconvenience; however, if a production line is stopped because one component is not available, the cost of lost time can be immense. Worse, if it is the end customer who discovers a problem caused by a supplier, then it can damage sales, goodwill and perhaps even damage a brand. Then there is the increasingly important risk of unsustainable practice in our supply chain, and especially the risk of this being exposed for it.

If a business does not understand and make plans around supply chain risk there may be a time bomb ticking away ready to cause havoc at any moment. Yet many organizations simply fail to consider this risk and assume that supply chains never fail. They do. When things go wrong within a business, action can be taken to remedy the situation. When they go wrong outside the business, the ability to influence outcomes or recover the situation may, at best, be limited and companies can find themselves impotent in the face of a crisis.

LAND ROVER'S CATASTROPHIC SUPPLY FAILURE

In 2001 Land Rover, then owned by Ford, encountered a major supply problem for chassis. The specialist process of chassis manufacture had been outsourced to UPF Thompson, the sole source manufacturer. On 4 December 2001 Land Rover's management team were shocked to hear that UPF Thompson had been placed into receivership, meaning that, with no alternative supply, Land Rover

production would soon stop. KPMG was appointed as the receiver for UPF Thompson and initially kept production running to allow chassis deliveries to continue but signalled plans to cease deliveries. As a result Land Rover sought a court injunction to prevent this but had to inject £1 million into UPF Thompson to shore up supplies short term. In order for Land Rover to properly recover the situation and secure the future supply of chassis they had to agree to KPMG's demands, which involved Land Rover taking on the debts of UPF Thompson so the business could continue as a going concern. The extent of these debts was never revealed but various analyses suggested this figure could have been as high as £75 million.

By considering the likelihood and potential impact of risks around supply failures, delays, quality problems or price hikes it is possible to develop responses that either prevent or prepare for these risks being realized. However, there are other potential risks out there in the supply base where the consequences can go far beyond that of a short-term crisis and can prove catastrophic or even terminal for an organization. Typically these are the risks that take away a company's competitive edge or differentiator, or that cause irreparable brand damage. It is a common misconception that big global companies are prepared for such occurrences but often they are not. Supply chain disruptions and the brand reputation risks they bring have been steadily growing in recent decades, fuelled by environmental and geopolitical events as well as the success of organizations relying on suppliers creating bigger, more complex, more agile supply chains. Covid-19 compounded this beyond anything we could ever imagine prior to it. Gartner suggests 89% of companies experienced a supplier risk event in recent years, yet these companies' awareness and plans to mitigate risk lacked maturity (Gartner, 2020).

It seems that organizations struggle to put in place good arrangements to manage supply base risk. This is possibly because it is very difficult to anticipate every possible risk. The risks that seem to do the most damage are the ones that appear *out of left field*, such as a pandemic no one had planned for or when two often unrelated sets of circumstances collide or when a new event suddenly forces us to question what was thought to be good practice. For example, during the Fukushima nuclear power plant disaster in 2011, systems deemed 'fail safe' failed. Equipment designed to shut reactors down in the event of an earthquake worked, but this set of circumstances, combined with complete loss of power in the region, and flooding of emergency gener-

ator rooms as a result of the tsunami, meant there was no power to critical cooling pumps and meltdown followed, leaving the world to learn new lessons for future generations.

Similarly, in the supply base, it is the unexpected that can cause the most damage, the horsemeat scandal described earlier being a case in point. Findus was one of many brands caught up in this but one that seemed to attract much attention. Up until that point Findus had been a household name for more than 50 years with sales exceeding £1 billion. As the company carefully managed its way out of the situation the executive team grappled with the question of exactly how much brand damage had been sustained and whether or not it was recoverable. Brand damage and reputational risk can cause huge loss of market share overnight. Millions and billions can be wiped off the value of a business as share prices plummet. This can mark the end for many organizations, yet some companies recover and share prices bounce back, sometimes higher than before where investors view the company's ability to manage itself out of trouble positively. Managing supply chain risk is therefore not just about prevention but is also about the ability to prepare for, and effectively manage through, catastrophe.

Effective management of supply chain risk requires a thorough and regularly revised understanding of the potential risk areas in the supply base, the likelihood of these risks being realized and the severity of impact. It also requires targeted intervention with some suppliers, and upstream in some supply chains, to either prevent, minimize risk or accept, and be prepared for, certain risks being realized. This means we need to identify those suppliers that present risk to us so we can do something, and the process of supply base segmentation in Chapter 4 tackles this. However, before that, as part of the macro-level VIPER determination, the organization must first decide on the degree of risk it needs under control. Many organizations never even consider supplier or supply chain risk until things go wrong. VIPER prompts us to think about this and macro requirements such as 'must have contingency plans for all single sourced scenarios' help focus effort where needed whilst supplier-specific requirements such as 'ensure no cocoa beans are sourced from the Ivory Coast' can set clear boundaries for multiple supplier relationships.

'E': effectiveness of operations

The second reason for intervention with specific suppliers and therefore source of supply chain value is that of ensuring the 'smooth and effective