

Supplier Development

– Moving from a Reactive to a Proactive Approach

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The industry is moving from a traditional approach where low purchasing price were the main focus and supplier switching was common. Today the high price of supplier switching is well known and the importance of supplier development has increased both in research and in the industry. When companies focus on their core competences supplier development is very important to generate competitive advantage. This study is based on a multiple holistic case study where five companies in the technical manufacturing industry have been investigated. The most important result of this study is the importance of having a strategy for supplier development to align the efforts at different departments involved. A dedicated person to have the holistic view and implement the strategy is preferable and it increases focus of this area. The supplier base should be categorized and they should be treated differently.

Key words: Supplier development, Purchasing, Proactive and Reactive, Supply Chain Management

Introduction

In the manufacturing industry it is a visible trend that companies focus their efforts on their core business. To keep competitive advantage, flexibility and reliability are core values in a market with fluctuating demand and smaller margins. When companies downsize and outsource with the aim to focus on their core business, this often leads to increased dependencies on their suppliers in terms of timely delivery and high quality of the delivered products. Thus the importance of supplier development has increased over the last years (Kraus, Handfield & Schannell, 1998).

There are many different definitions for supplier development (SD) in literature in the subject. The definition that many researchers use, which also will be used for this project, is obtainable by Krause and Ellram (1997, pp. 39):

“Any effort of a buying firm working with its supplier(s) to increase the performance and/or capabilities of the supplier and meet the buying firm's short- and/or long-term supply needs. Moreover, promotes on-going improvements that are intended to benefit both buyer and supplier(s)”.

The purpose of this study is to generate knowledge regarding supplier development and to draw conclusions on how the process of moving from reactive to proactive supplier development is managed. With reactive supplier development this study mean “firefighting” and only working with the most urgent problems

when they have already occurred (Krause, Handfield & Scannell, 1998). A proactive approach is more holistic and has a longer horizon. In this context, proactive means prevention of future problems by long-term improvements of the supplier base.

The case company, ABB Robotics, is a global manufacturer in the industry of discreet automation, with one plant in Västerås, Sweden, and one in Shanghai, China. The study was conducted at the purchasing department for direct material for the production in Sweden.

The focus of this study is on already selected suppliers and increasing performance of the existing supplier base. This means that choosing which suppliers that should be included in the supply base is left to the case company. The focus is mainly on direct material for production. Throughout the study the subject of supplier development has been studied and analyzed through five factors:

- Objectives
- Activities
- Supplier key performance indicators (KPI)
- Success Factors: Mindset, Internal and external information sharing, Trust and Power
- Outcome

Methodology

This study is based on the multiple case study methodology suggested by Yin (2009). The problem formulation aims to analyze “how” and “why” the individual cases work with supplier development. In the study five cases were examined.

When selecting the case companies it was preferable to have cases similar to ABB Robotics, to find a suitable solution for them. Hence, cases with assembly of technical products were highly prioritized. The selected companies were ABB LV Motors, Alfa Laval, Volvo Cars, TyssenKrupp Marine Systems (TKMS) and ABB Robotics since all of those fulfill the requirement. It should be mentioned that TKMS differ slightly because they work in projects while the others are closer to mass production.

29 interviews of semi-structured character were how the data was gathered. The reason for the semi-structured interviews was to get an in-depth understanding without losing the focus. To ensure the quality of the interviews an interview protocol were developed, and used during all interviews.

The findings were analyzed through three different methods cross-case analysis, pattern matching and explanation building. A cross case analysis were examined first to compare all the findings from the cases. A pattern matching were then examined to visualize patterns from the findings and the theory. Finally were explanation building examined to create understanding for the cases.

To create validity within the study different techniques were used, for example multiple sources of evidence, report reviewed by key informants, case study protocol and interviews with people at different levels within the organization. Cross-case analysis, pattern matching and explanation building, described above, contribute to the internal validity.

Literature study

Firms using SD are more focused on improving the material they buy rather than improving the supplier’s capabilities. Focus is on current costs and quality instead of improving capabilities to generate improvements in future costs and quality. This indicates that most companies work with supplier development in a reactive way. But

developing suppliers’ capabilities and flexibility will be the key to competitive advantage in the future because of the market’s increasing demand fluctuations and smaller margins. Thus companies should strive towards a more proactive supplier development (Watts & Hahn, 1993).

There is no univocal program for SD but Krause, Handfield and Scannell (1998) has stated one program, which most of the studied literature agrees with. Before a proactive approach to supplier development can be implemented a company needs to go through some phases. First total quality management needs to be established at the company. After that should the supply base be evaluated and reduced. Finally the supplier development phases can be started and it initiates with a reactive approach before the company can move into a strategic approach (Krause, Handfield & Scannell, 1998). Proactive is in this study named strategic.

The result from Krause, Handfield and Scannell’s (1998) study shows that most companies working with supplier development use the 10 steps listed below.

- Identifying critical commodities for development
- Identify critical suppliers for development
- Form cross-functional commodity team
- Initiate communication with suppliers management
- Identify critical performance areas for improvement to gain competitive advantage
- Identify opportunities and probability for improvements
- Develop agreements
- Provide joint resources as required and implement supplier development effort
- Reward and recognition
- Systematically institute ongoing continuous improvement

Depending on if a company is in the reactive or proactive phase they work with the process in different ways. The major difference between the reactive and the proactive phase in the supplier development process is the first two steps, “Identify critical commodities for development” and “Identify critical suppliers for development. Reactive companies do not focus on the commodities but only on poor performing suppliers, which are chosen for supplier development. Proactive companies focus their development efforts on suppliers delivering strategic commodities. These suppliers are analyzed on supplier performance data together

with soft values to identify suppliers requiring development (Krause, Handfield & Scannell, 1998).

Discussion and Findings

In this section different supplier development efforts will be analyzed and categorized as reactive or proactive. This will be done for each factor. The classification is done based on the literature study and the empirical findings.

Objectives

Regarding objectives this project has found that the difference between a reactive and a proactive approach is that reactive companies has no possibility to raise their horizon and state long-term objectives. Instead focus is on fighting the most urgent problems. When working proactive the SD objectives also includes the suppliers well being (Watts & Hahn, 1993), and have defined short-term goals.

Activities

A reactive effort within supplier development is to select suppliers for development only based on poor performance and independent of what type of supplier it is. Compared to that a more proactive approach is to categorize suppliers dependent on how critical commodities they deliver (Krause, Handfield & Scannell, 1998). The different categorize should be treated differently. Development efforts should mainly be performed with strategic suppliers, while efficient contracts (Lamber & Knemeyer, 2004) are important for non-critical suppliers.

The supplier development process developed by Krause, Handfield and Scannell's (1998), listed in "Literature Study", should be used to manage proactive activities. It is also important to facilitate for the suppliers with internal processes that enable high performance from them and that the buying firm dedicate resources for development (Krause, Handfield & Scannell, 1998).

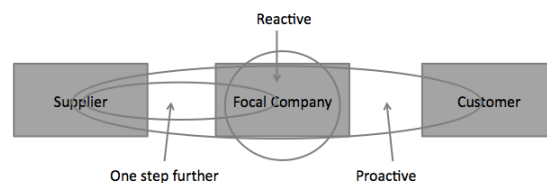
For a proactive supplier development approach it is important to establish continuous improvements both for internal purchasing processes at the buying company and for the suppliers business (Krause, Handfield & Scannell, 1998; Bergman & Klefsjö, 2012). Awards and recognition is a good way to give suppliers incentives to increase their performance with continuous improvements (Krause & Ellram, 1997; Krause, Handfield & Scannell, 1998).

KPI

The largest difference in working reactive versus proactive with KPIs is to add measurements for soft values. In the context of SD, soft values means measurements of the relationship between the two companies, which in many cases is built through trust (Lamber & Knemeyer, 2004). It is very difficult to find suitable performance measurements for this (Pradhan & Routroy) but Volvo Cars have several in their evaluation system, for example trust. Mutual agreed performance measurements are also important for a proactive approach.

Mindset

If the mindset for supplier development only focuses on internal benefits for the focal company it is a reactive approach. A step to become more proactive in supplier development is to have a mindset based on long-term relationships. Focus should be on mutual benefits and shared responsibilities between the supplier and the focal company. The suppliers should be seen as a part of the buying company and their problems are the buyer's problems (Krause & Ellram, 1997; Krause, Handfield & Scannell, 1998). The most proactive approach within the mindset is to complement the mutual benefits between the two companies with a strong customer focus (Bergman & Klefsjö, 2012; Krause, Handfield & Scannell, 1998).



Figur 1 Different supplier development mindsets

Internal Information Sharing

Misalignment in internal objectives is not reactive in it self but it implies an immature internal procedure. This research shows that it complicates the processes of supplier development. Misalignment within objectives of departments involved in supplier development is a complex issue and hard to manage. Permanent cross-functional teams are a way to handle the problem and it might ease the issue but it is not a solution that eliminates the problem (Krause, Handfield & Scannell, 1998). A more proactive way to reduce internal misalignment according to this study is to have a clear sourcing strategy with a vision, objectives and an action plan.

External Information Sharing

Sharing information with suppliers is a very important factor to become more proactive within supplier development especially for high-tech manufacturing companies (Lee, So & Tang, 2000; Carr & Kaynak, 2007). First steps in becoming more proactive are to increase and communicate expectations for suppliers (Krause & Ellram, 1997) and to use local units in global markets. More proactive is to have intense traditional communication with strategic suppliers and a clear plan for how often meeting should be held for the different suppliers in the supplier base.

Trust and Power

Trust is a very elementary factor in a relationship between two companies. A good way to increase trust is if both the supplier and the buyer put effort and resources into mutual projects. Keeping promises in terms of contract and payments is together with joint efforts a step to become more proactive in SD. In proactive supplier development power should be managed carefully and is more important in the management of non-critical suppliers compared to strategic suppliers where trust is more important.

Outcome

In proactive SD outcomes can be achieved in improved quality, improved relationships internally and externally and increased financial performance (Bergman & Klefsjö, 2012; Carr & Kaynak, 2007). More specific examples are that the production can proceed without interruptions (Bergman & Klefsjö, 2012), decreased cost for bad quality and rework, increased on-time delivery and a smoother purchasing process. All this leads to an increased financial performance with less time spent on solving urgent problems. The outcome for supplier development is not visible immediately and it is important to know that resources need to be devoted before the outcomes are received.

Conclusion

The most important result of this study is the importance of having a strategy for supplier development to align the efforts at different departments involved. A dedicated person who has the holistic view and implement the strategy is preferable and it increases focus of this area. Since it is a question of strategy and management it would be more suitable to have a person with higher competence.

The supply base should be categorized and they should be treated differently. Non-critical suppliers need a good contract and competition through multiple sourcing while the relationship with strategic suppliers should aim for partnership. In partnership it is vital to see the supplier development as a mutual work together with the suppliers. Strategic suppliers should receive most development efforts.

The focal company needs to dedicate resources for development and facilitate for the suppliers so that they can perform on their top level. Continuous improvements should be implemented both at the suppliers and for internal processes at the focal company to increase supplier performance.

Communication is very important for supplier development. The permanent cross-functional purchasing teams should be used in the supplier development efforts to align the different departments. Frequently, traditional communication with suppliers by phone calls, e-mails and face-to-face meetings are proved to be important and affect the outcome, which gives the operational purchasers a central role.

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