

IMPROVING SUPPLIER'S PERFORMANCE AND BUYER-SUPPLIER RELATIONSHIP

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Abstract

In every company's supply chain, every link needs to be strong to ensure the survival of the company and for it to achieve competitive advantage. In this case study of one of the electronics company in the Kedah state, the upstream link of the supply chain is weak due to poor performance of the local WIP components suppliers in terms of delivery and quality of the incoming components. The key impact of this unsteady supply and poor quality of components is delay in manufacturing/assembly and this subsequently affects the company's ability to deliver the finished goods to the end customer on time.

The main causes of the poor performance of the suppliers are incorrect production method, insufficient production facility, lack of financial ability, lack of technical and engineering capability, the buyer's purchasing practice (focus on price alone) and the attitude of the suppliers.

The objective of this study is to examine the causes of the problems and to explore ways to improve the suppliers' performance via supplier development programme. A framework, based on the model by Hahn et al (1990) is recommended to be used as a guide for the implementation of a supplier development programme in the company.

The results of improved suppliers' performance are many. Among them are steady supply of components, good quality and improved buyer-supplier relationships. It will also strengthen the upstream link of the supply chain to give the company the much needed competitive advantage to compete in the global marketplace.

Introduction

This study is conducted in a company based in Sungai Petani, Kedah, Malaysia and shall henceforth be referred to as "the company" in this paper. The company is a

shorter cycle time, fewer quality defects, reduced costs and streamlined processes are the result of closer working relationship with suppliers (Minahan 1998).

Among the results of improved supplier performance will be uninterrupted supply of components, fewer quality defects, reduced costs (especially overtime and freight costs) and a stronger upstream link in the supply chain.

Literature Review

Japanese Strategic Industrial Sourcing

The Japanese strategic industrial sourcing model is associated with passing responsibility for design and manufacture to the first tier suppliers. To do this, a company must have a very clear, long term strategy on what it should be retaining control over, designing and making, and what it can outsource to suppliers.(Rees, 1996)

There are many benefits of outsourcing such as enabling the company to focus on their core competence (what they are good at), reducing and controlling operating costs and have access to world-class capabilities. (Outsourcing Institute 1997).

Outsourcing, however, also has considerable risks such as high dependence on suppliers, non-performance by suppliers and the danger of suppliers' situation changing in the future, for example, supplier goes into financial difficulties (Braggs 1998).

Role of procurement and purchasing

Procurement or also known as purchasing department has a crucial role in determining the types of relationship that the company would have with its suppliers. In dynamic markets, companies need to evolve from traditional to strategic purchasing.(Cammish, 1991)

Strategic purchasing aims to reduce the cost of purchasing that might imply standardization of components, delivery time and levels of inventory. These efforts will usually include key suppliers as joint problem solvers and for this problem solving model

Types of buyer-supplier relationship

Saunders (1997) describes two types of buyer-supplier relationship; the adversarial model and the partnership model. The adversarial model is characterized by 'arms length nature', formal paperwork communication and is seen as a short term, competitive sourcing approach that could lead to frequent changes of suppliers.

Life Cycle Models of Buyer-Supplier Relationships

The life cycle model of buyer-supplier relationships assumes that the relationship will develop and change over time. If this assumption is accepted, then the management of the relationship must also change according to the different stages of the life cycle. (Saunders 1997)

Improving Buyer-Supplier Relationship

The Role of Procurement/Purchasing

"Procurement practices and culture, more than anything else in an organization, set the tone and exert a great deal of influence on the buyer-supplier relationship." (Mehta 2000)

Mehta (2000) further stress that "in order to begin to build or improve existing buyer-supplier relationships, one must first review procurement practices of a company. He went on to describe "procurement practices, though practiced by very few companies where the buyer and supplier companies trust each other to a point where cost structure of both are shared and discussed. This is a win-win approach."

Birch (2001) agrees on the importance of procurement in fostering an improved buyer-supplier relationships. According to him, "best procurement practice demands that you work closely with all the parties in your supply chain." Interestingly, Birch (2001) also touched on the issues in managing the relationship of buyers and suppliers or what he terms as supplier relationship management.

Supplier Development

Supplier development is a formal operation undertaken to elevate supplier performance and capabilities. (Hahn, et al 1990; Hines 1994; Hartley and Choi 1996) Supplier development, in a definition provided by Partnership Sourcing (1992) is: “where customer (buyer) and suppliers develop such a close and long term relationship that the two work together as partners. The principle is that teamwork is better than combat. If the end customer is to be best served, then the parties to a deal must work together and both must win. Supplier development works because both parties have an interest in each other’s success.” Watts and Hahn (1993) arguably states that the most important goal of supplier development programme is the improvement of product quality and because of that, many of the supplier development practices were quality related. Among the supplier development practices are as follows: importance of quality in the selection of suppliers, utility of data-based supplier rating system, reliance on few dependable suppliers, appropriate education provided to the suppliers, technical assistance provided to the suppliers, involvement of the buyer in the supplier’s product development process, extension of long term contracts to the suppliers and clear specification provided to the suppliers. (Leenders 1966; Leenders and Blenkhorn 1988; Burt 1989; Lascelles and Dale 1989,1990; Hahn et al. 1990; Newman and Rhee 1990; Galt and Dale 1991)

Forker, Ruch and Hershauer (1999) states that “for suppliers to reduce defects and production costs, cross organizational cooperation between the supplier’s quality department and the buyers procurement department is essential.” The supplier’s quality department is chosen because it the one that will most likely to work with the buyer’s procurement department in a supplier development programme. (Watts and Hahn 1993)

Pender (1993) promotes supplier development process to recognize and develop suppliers with the highest standards of quality. This supplier development process is strongly based on a clear quality policy with the sole objective (both on the part of buyer and supplier) of exceeding customer expectations.

Forker, Ruch and Hershauer (1999) stress that although it is important to have a well-designed supplier development programme, it is more important that the programme is well communicated and understood by the suppliers. Quayle (2000) states that “the key elements for supplier integration are commitment, explored equitable outcomes, trust, joint implementation, period review and thinking strategically across a range of projects. What is emerging here are common principles. Commitment, continuous improvement, involvement of suppliers at early stages and a clear need to work together. Note that dominance by purchaser or supplier does not feature.

Rusinak (1996), in a study of Australian industry, argued that a company’s competitiveness and future depends on the improvements that it and its supplier can make together. Focusing on supplier development and the Kaizen process can assist both buyer and supplier and provides significant benefits to the buyer.

How does a company go about in implementing a supplier development programme? Hahn et al (1990) provided a more comprehensive model for supplier development programme. According to Hahn et al (1990), “the basic objective of the purchasing function is to secure competent supply sources that will provide an uninterrupted flow of required material at a reasonable cost. This involves first the selection of competent suppliers in terms of technological, quality, delivery, and cost capabilities- and second, it requires working with them to upgrade their capabilities.” He went on to say that “supplier development programme, then, can be defined as any systematic organizational effort to create and maintain a network of competent suppliers.”

Cause, Effects and Impact Analysis

The company currently faces problems in the upstream link or the supply side of the external supply chain where the performance of the local WIP components suppliers, in terms of delivery and quality, are poor.

The main causes of the suppliers’ delivery and quality problems are poor management, lack of funds, poor inventory control, incorrect production method, lack of engineering

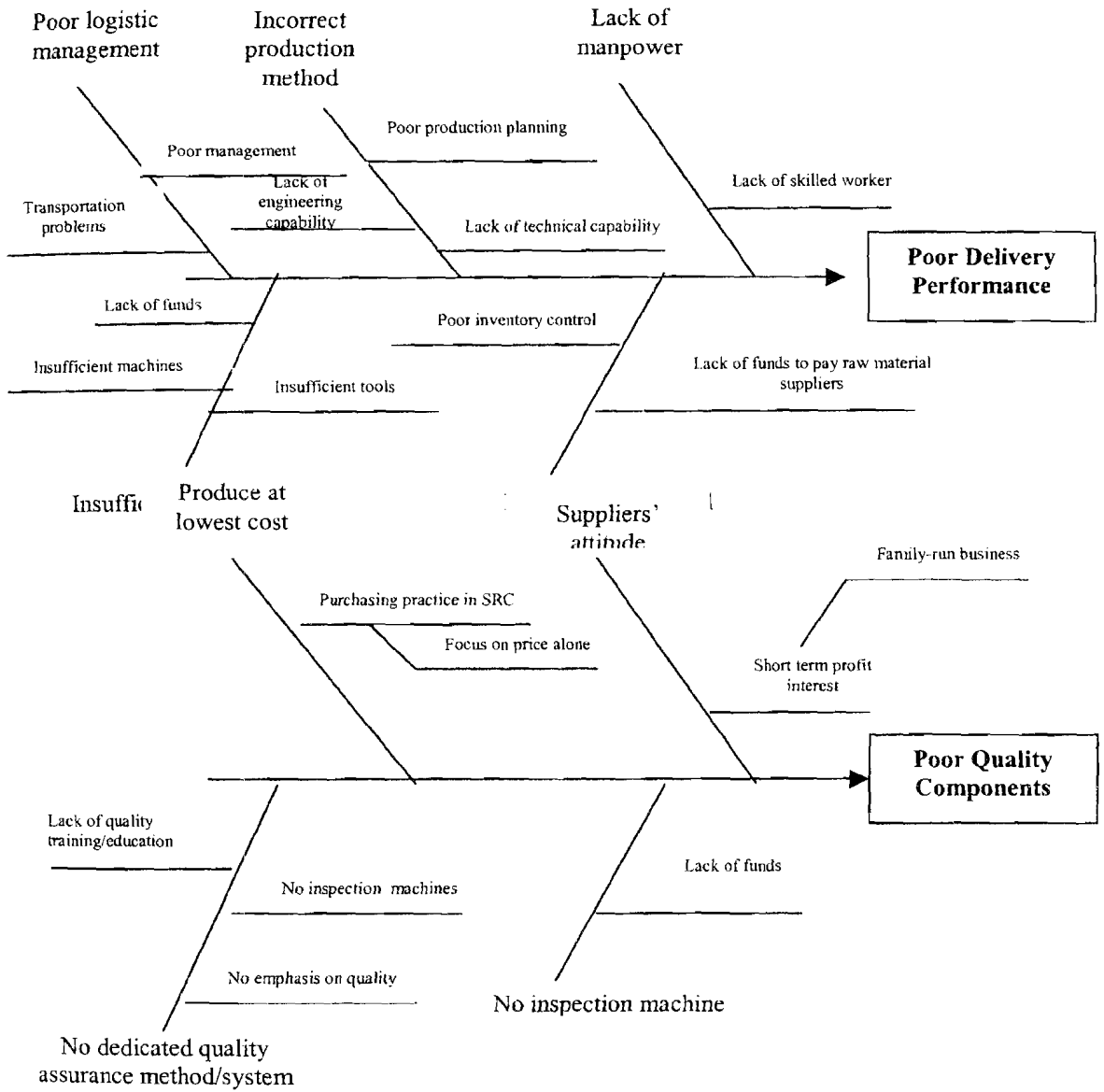
and technical capability, lack of manpower, insufficient production capacity, poor logistic management, no dedicated quality assurance method/system for the outgoing components and the suppliers' attitude (heavy emphasis on quick inflow of cash thus sacrificing quality).

The purchasing practice where the focus is on price alone compounds the effect of the problems further. The suppliers are forced to produce at the lowest cost to be able to supply the components at a cheaper price. Where price is the main concern, quality is usually sacrificed.

The key impact of poor delivery and quality performance is delay in manufacturing or assembly. This subsequently has a chain effect on the rest of the supply chain as evidenced in the increased costs, rescheduling and inability to meet delivery deadlines.

The poor performance of the suppliers is also taking it toll on the buyer-supplier relationships. The forceful negotiating tactics, lack of trust and violation of contracts (in terms of delivery and quality) are characteristics of adversarial relationships. This adversarial relationship will not bring any benefits to both SRC and the suppliers. The analysis of the problems and its causes is summarized in the Cause and Effect (Fishbone) diagram below:

Figure 1: Cause and Effect (Fishbone) Diagram



Present Buyer-Supplier Relationship

The present problems of poor supplier performance in terms of delivery and quality faced by the company, coupled with the purchasing on price focus practiced by the company are making the relationship between the buyer (the company) and the supplier (the WIP components supplier) very stressful.

By improving the supplier's performance, the company can work towards improving the buyer-supplier relationship and can perhaps look at partnerships in the future. Hence, the best option recommended to improve the supplier's performance and solve the problem is via supplier development programmes.

Supplier development programmes in SRC

In order to improve the local WIP components supplier's performance especially with regards to delivery and quality aspects in the company, the writer suggest the following framework to be used as a guide.

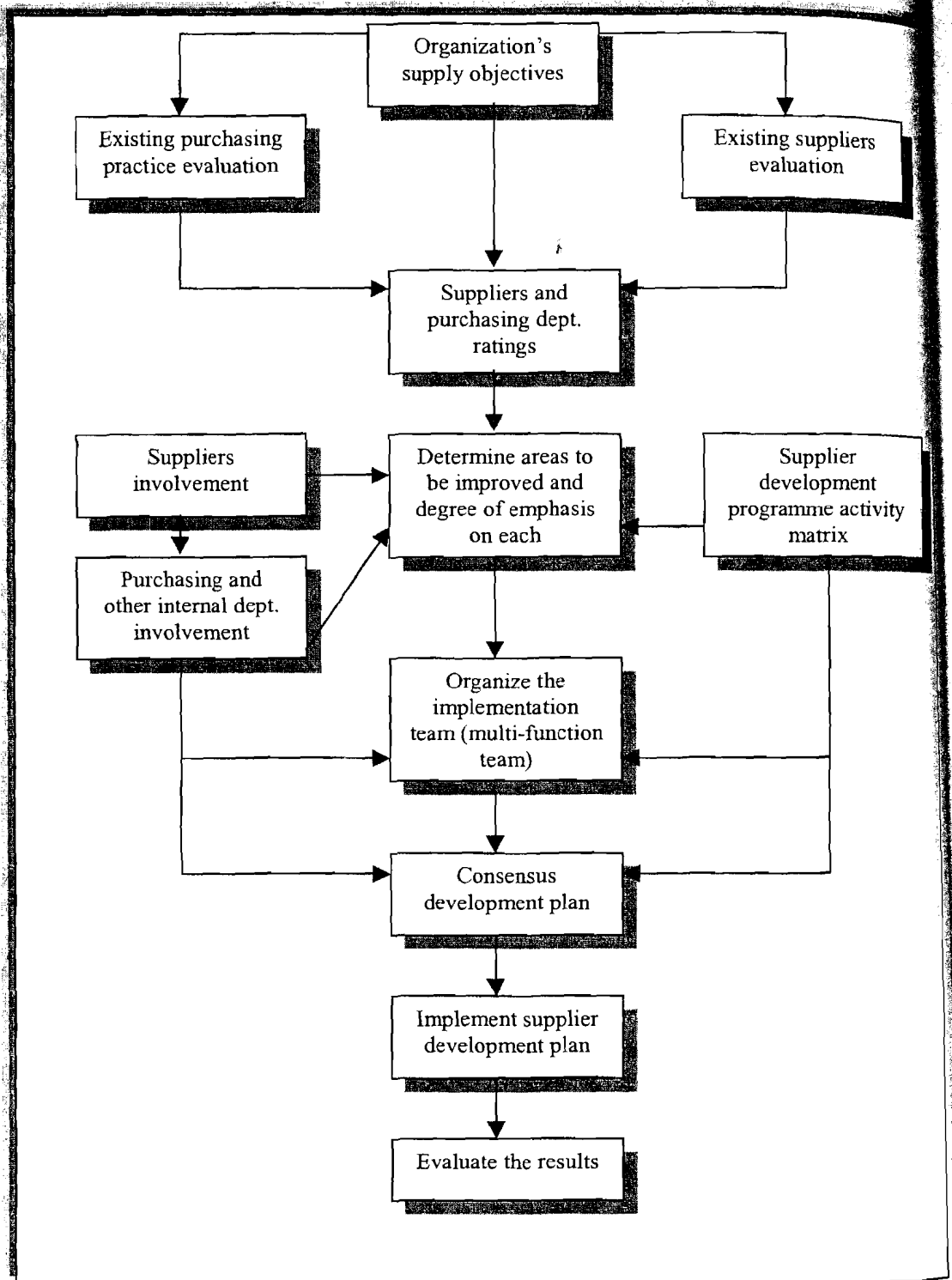
The framework, adapted from Hahn et al's (1990) model is a combination of both aspects of internal supply chain (the company itself) and the external supply chain (the WIP components suppliers).

It requires an evaluation on both the existing suppliers in terms of technical capabilities, quality, delivery and cost and the existing purchasing practice of the company. Both the purchasing practice and the suppliers will be given a rating to determine which areas to be improved and the degree of emphasis on each area.

The supplier programme activities are formulated mainly from the analysis done on the causes of the problems (delivery and quality) faced by the company with regards to its WIP components suppliers.

The supplier development programme, if implemented correctly with full commitment from both buyer and supplier, could bring tremendous benefits such as good delivery performance, reduce quality defects, reduced costs and improve the buyer-supplier relationships between the company and its local WIP components suppliers.

Figure 2: Supplier Development Programme Framework



Source: Hahn et al (1990)

The framework and recommendations for improvement

1. Organization supply objectives

The organization here means the company and it has to determine the supply objectives that it wants to achieve. Examples of such objectives are steady and uninterrupted supply of WIP components with good incoming quality which will be received at the expected delivery date.

2. Existing supplier evaluation

The existing suppliers should be evaluated using criteria such as technical capabilities, financial ability, delivery, quality and costs. How is the performance of the suppliers in terms of the evaluation criteria above? The answers to the question will provide a basis for the next step of suppliers' ratings.

3. Existing purchasing practice evaluation

It is important to evaluate the existing purchasing practice as this will determine the nature of relationships between the buyer and the supplier. The evaluation of present purchasing practice could be used to determine whether it needs to be improved in order to ensure the success of the development programme.

4. Suppliers and Purchasing department ratings

The performance of both the suppliers and the purchasing department then will be rated. The company can use simple rating measures such as 1 to 10 with 1 being the lowest (thus putting a high priority for improvement) and 10 being the highest.

The criteria for the ratings should be the same as in the evaluation process, for example, for the suppliers, technical capabilities, quality and delivery. For the purchasing department, the criteria that could be used are price, quality and trust towards the suppliers.

Suppliers
evaluation

Supplier
performance
activity
matrix

5. Determine areas to be improved and degree of emphasis on each

The ratings of suppliers and the purchasing department can be used to determine areas that need to be improved in order to improve the supplier's performance and the relationship between the buyer and the suppliers. The ratings will also determine which areas should the company and the suppliers concentrate on because the company must be efficient in utilizing the resources so that both parties can get the most benefit from the allocation of resources (e.g. money, time and human resources).

It is recommended that the company change its purchasing practice from price focus to a purchasing practice where more than price is considered in the buying decision. The new purchasing practice should include factors such as delivery, quality, as well as price in its buying decisions. The purchasing department must also have some level of trust in the suppliers.

The purchasing department must realize that they must work together with the suppliers in a "partnership-style" approach rather than the current adversarial approach.

This is because the competitiveness of the suppliers is important to ensure the competitiveness of the company. The company must also realize that their success in delighting the end customers depends on the success of their suppliers.

It is also recommended that the company have a closer look on the problems faced by the suppliers in terms of their production facility and their technical capabilities as well as financial ability so that costs can be driven out from the operations and the suppliers can produce effectively thus being able to meet the scheduled delivery dates and improve on components quality.

6. Suppliers and purchasing (and other) departments involvement

The involvement of suppliers is crucial in ensuring the success of the supplier development programme. It is recommended that a supplier conference be conducted to

make the supplier understand the importance of the development programme and to gain their acceptance that their involvement is required for their own benefits in the long run.

The awareness of the long term benefits is important as the suppliers have the attitude on looking only for short term benefits. As discussed earlier, the supplier companies are mostly family-run businesses that are only interested in short term profits. The company must make them aware of the long term benefits that they will get from the development programmes, or else, they would not be interested in getting involved.

The purchasing department and other department must also be involved in this programme as the improvement of suppliers' performance and the buyer supplier relationship works both ways, not only on the part of the suppliers, but the internal supply chain as well.

The involvement of the internal department is also important as one of the approach to implement the supplier development programme is via multi-function teams and without the involvement of the internal departments, it is impossible to establish a multi-function team that will work together in solving the supply problems of the company.

7. Supplier development programme activity matrix

The company must outline in detail what activities it wants to undertake in the development programme, what kind of assistance it wants to give to the suppliers, etc. It is recommended that the company include the following items in the supplier development programme: technical assistance, financial assistance, engineering support, managerial assistance, logistic support and tools such as inspection machines for quality assurance, etc.

The items mentioned above, such as technical assistance, logistic support, tools and engineering support can help the suppliers improve the flow of materials through its operations and improve its production process to drive costs out of the system.

Financial assistance will enable the suppliers to improve its production facility and solve the problems of shortages in machines and manpower. Managerial assistance will help the suppliers in managing the company efficiently and to provide strategic direction for the company. The development activities will help improve the skills of the suppliers, ensure that the deliveries schedules of the components are met and that the quality of the incoming parts are good and meets the standards provided by the company.

8. Organize the implementation team

The next step would be to organize a multi-functional team that would be responsible in implementing the supplier development programme.

It is recommended that the multi-function team consist of members from all the different departments that would be involved directly with the supplier. The multi-function team will provide a multi-department representation to ensure that the initiatives come with full support from all the departments across the internal supply chain (the company).

The writer suggests that the members of the team should comprise of engineers, quality engineers, purchasing, logistics or materials control, manufacturing, finance or accounting and sales.

The engineers will assist the supplier to improve the technical capability and the production process while the quality engineers can help in dealing with any quality problems that the supplier is facing.

The purchasing personnel will assist in managing and administering purchase contracts and making sure that the supplier supplies components that conform to the specifications of the contract.

The logistics or material control member can assist in delivery schedules and the transportation of the components from the suppliers' factory to SRC. The finance

department will help in structuring financial assistance for the suppliers while sales could instill awareness to the suppliers on customers' demands and requirements.

The team, through the supplier development programme, can, for example, visit the suppliers' factory to help them drive costs out of the suppliers' operations. The team could also help the supplier resolve the immediate problem of delivery and quality and then provide support for future improvement efforts.

9. Consensus development plan

There should be a consensus between the company and the suppliers of the development plans that would be implemented and the time frame for each stages of implementation.

10. Implement supplier development plans

Once the consensus on how to implement the supplier development plan is reached, the company can proceed to implement the plans according to the planned time phase.

11. Evaluate the results

The evaluation of the results is important to gauge the performance of the suppliers after the development programmes were implemented. The idea is for the company to provide direct feedback to the suppliers and the suppliers to also provide feedback to the company. The evaluation criteria should include technical capability, cost management, delivery, quality and how well the buyer and supplier are working together.

The continual evaluation between the buyer and the suppliers will ensure that the programme is well communicated and understood by the suppliers. It can also be used as a tool to continuously improve the suppliers' performance and the buyer-supplier relationship. By evaluating the results, the company will be able to determine areas that need to be improved both on the buyer and the suppliers' side.

Conclusion

In summary, the issues or problems that SRC is facing originated from the front-end of the supply chain where the first tier suppliers (the WIP components suppliers) are unable to provide SRC with a steady supply of good quality components and this has a chain effect on the rest of the supply chain.

The buyer-supplier relationship is adversarial partly due to the poor performance of the suppliers and partly due to the purchasing practice and attitude of the internal departments.

The buyer must realize that their competitiveness depends very much on the performance of its suppliers. Hence the company must find ways to improve the performance of the local WIP components suppliers and it is suggested that the company use supplier development programme.

The supplier development programme is outlined using the framework based on works done by Hahn et al (1990) the foundation of success for this programme is the involvement of both the buyer and the suppliers.

The role of purchasing department and the multi-functional team is also crucial in ensuring the success of the supplier development programme. Buyers (the company) need to ensure a strong level of commitment to the supplier development programme in order to develop supplier's long term capability to ensure that they will be around in the future.

The supplier development programme, if implemented correctly, should be able to solve the problems the company is facing as it is designed to reach the desired goal of improved delivery performance and improved quality.

The programme, however, needs to be continually evaluated and measured for the purpose of feedback which can be used to improve the programme itself. This will make the programme more effective and productive.

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