

Managing purchasing and supply relationships

Session 1

Definition and classification of purchasing and supply relationships

Relationship and process stakeholders



Learning objectives

At the end of this session candidates will be able to:

- define key terms used throughout this course book
- explain the different types of relationship within the 'relationship spectrum'
- define and differentiate between a range of relationships between buyers and sellers
- diagrammatically explain the supply positioning model in a supplier relationship context
- identify stakeholders in the process of purchasing
- identify typical requirements of external customer stakeholders and internal customer stakeholders other than technical specialists
- identify typical requirements of technical specialist stakeholders, internal supplier stakeholders and external supplier stakeholders.



Key definitions

In small groups define what you think is meant by the following:

- commercial
- supplier
- approved list of suppliers
- relationship
- purchasing and supply relationship.



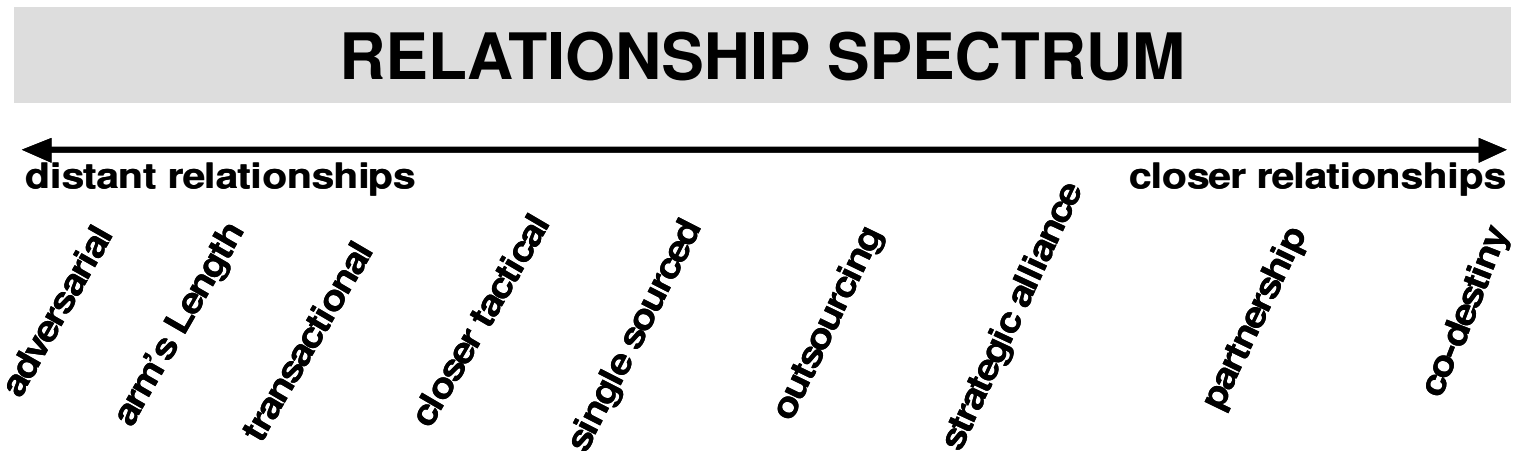
Relationship spectrum of buyers and sellers

(Diagram from course book by Mike Fogg)



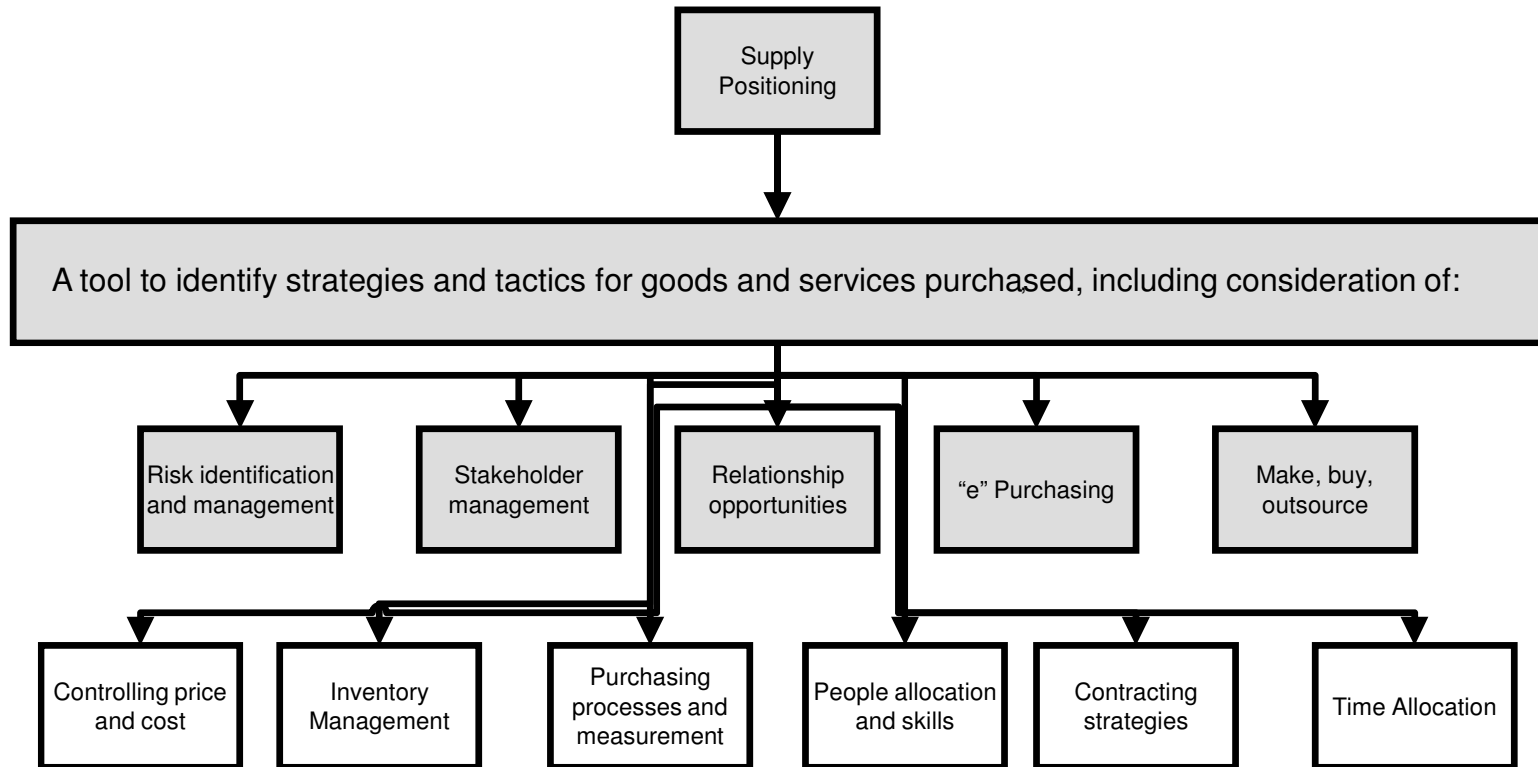
Relationship spectrum of buyers and sellers

(Diagram from course book by Mike Fogg)



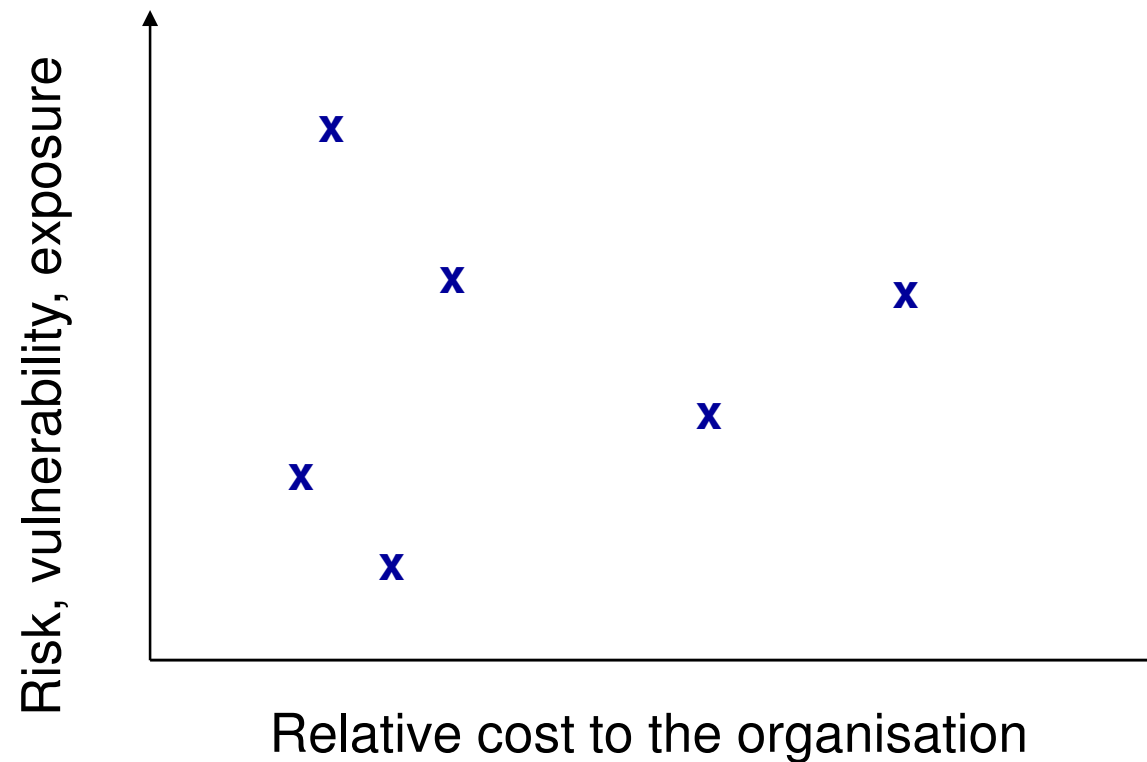
Supply positioning analysis

(Diagram from course book by Mike Fogg)



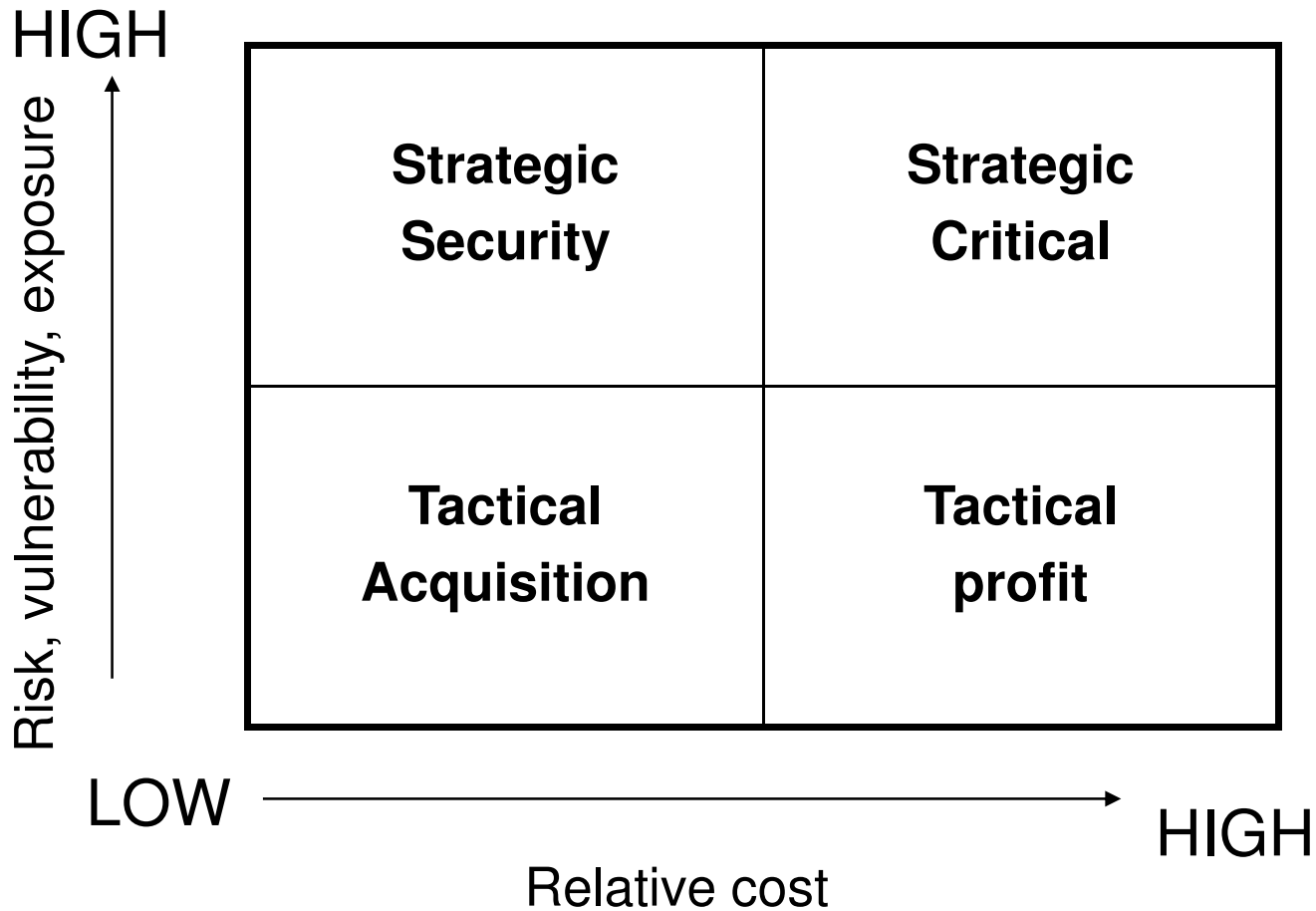
Using the supply positioning model

(Diagram from course book by Mike Fogg)



Supply positioning model

(Diagram from course book by Mike Fogg)

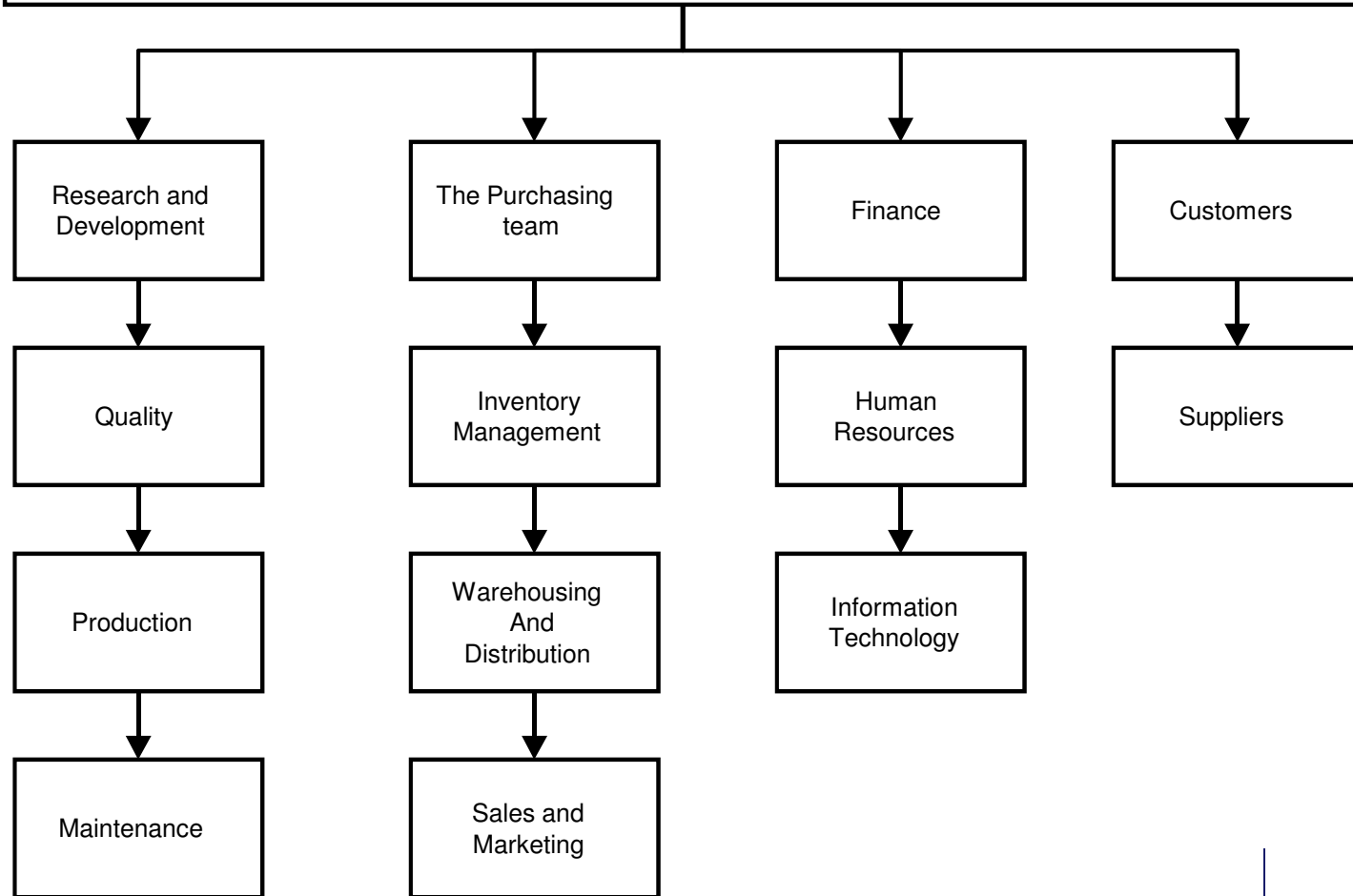


Stakeholders

- Individuals or groups who have an ongoing interest or influence on the process of purchasing
- Includes customers and suppliers.



The purchasing process and its stakeholders (Manufacturing environment)



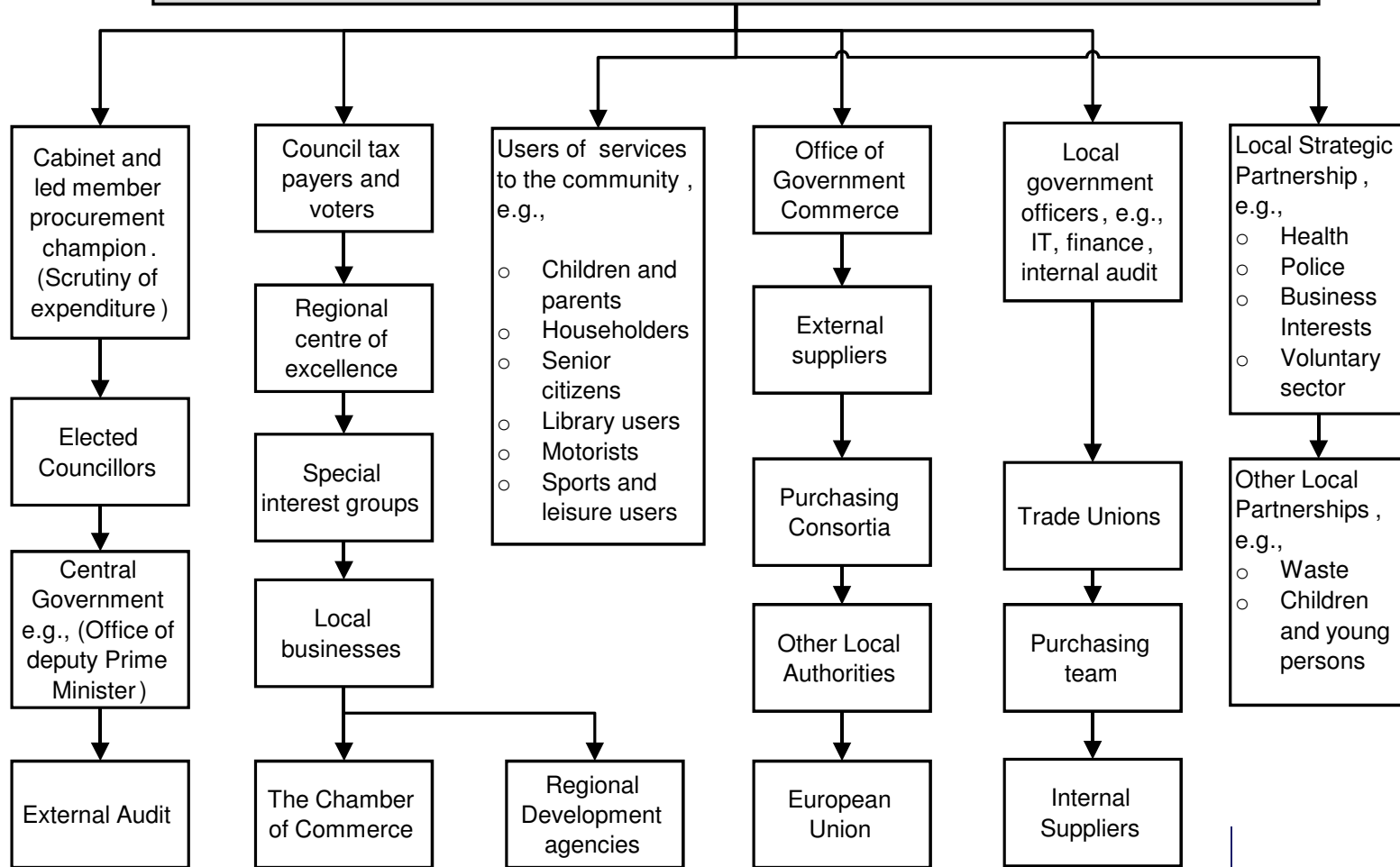
NB : The hierarchical sequence of the business functions in this chart is not meant to give prominence to one function over another. It is simply a convenient way of grouping stakeholders together in this environment

THE
CHARTERED INSTITUTE OF
PURCHASING & SUPPLY



(Diagram from course book by Mike Fogg)

The purchasing process and its stakeholders: a County Council in the UK



The hierarchical sequence of the business functions in this chart is not meant to give prominence to one function over it is simply a convenient way of grouping stakeholders together in this environment

Diagram from course book by Mike Fogg, with thanks to Fiona Holbourn of Leicestershire County Council and Ken May of ESPO



External customer stakeholders

- External customers who purchase goods and services from your (the buyer's) organisation
- In small groups, consider what might be the requirements of external customers (for example, on-time delivery)
- Give two examples of how these requirements might impact upon the purchasing process.



Internal customer stakeholders (not technical specialists)

- The people in your organisation who actually use the goods and services which you (the buyer) purchase
- The people in your organisation who should be consulted about all proposals that might affect them
- Typically includes end users, business managers, functional groups, and departments such as finance or logistics.



Technical specialists

- Who are the technical specialists in your organisation?
- Usually concerned with quality and have specific needs for purchases
- How do they communicate their purchasing needs, or get involved with purchasing, in your organisation?



Internal supplier stakeholders

- Provide some element(s) of the goods and services supplied to your (the buyer's) organisation's customers
- May be separated by distance and time from the main site or location
- Relationships need to be managed to be effective – choice, payment models, and so on.



External supplier stakeholders

- Suppliers to your (the buyer's) organisation
- Need to know what is expected of them in terms of the relationship, the specifications for goods and services supplied, the contractual terms and conditions, and so on
- These relationships develop over time.



Managing purchasing and supply relationships

Session 2

Relationship challenges and risk management

Managing strategic relationships

THE
CHARTERED INSTITUTE OF
PURCHASING & SUPPLY



Learning objectives

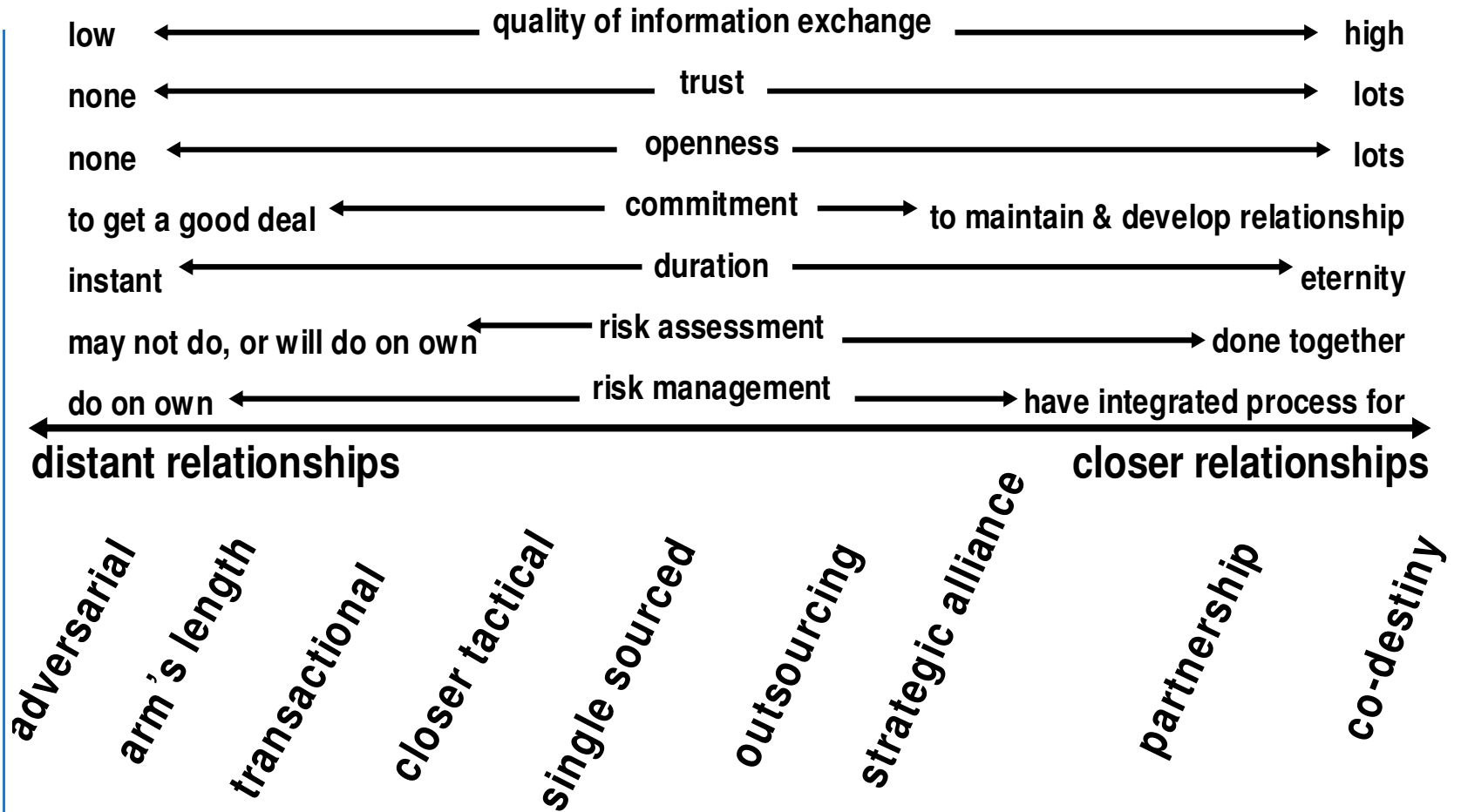
At the end of this session candidates will be able to:

- evaluate the risks run by buyers and sellers in tactical relationships
- evaluate the differing views that suppliers have of their customers and the customer's ability to change that view
- show diagrammatically the dynamics of differing legitimate objectives of buyers and sellers
- compare challenges faced by organisations in different business environments and how they impact tactical relationships
- formulate strategies and tactics for improving given tactical situations which are disadvantageous to the buyer's organisation
- formulate a basic risk management process
- identify where strategic involvement of suppliers is appropriate for purchasing organisations.
- describe typical interaction between the purchasing organisation and the selling organisation when a strategic approach is used
- define and evaluate the importance of transparent communication in supply relationships
- assess the role of people and communication in supply relationships.



Relationship spectrum 2

(Diagram from course book by Mike Fogg)

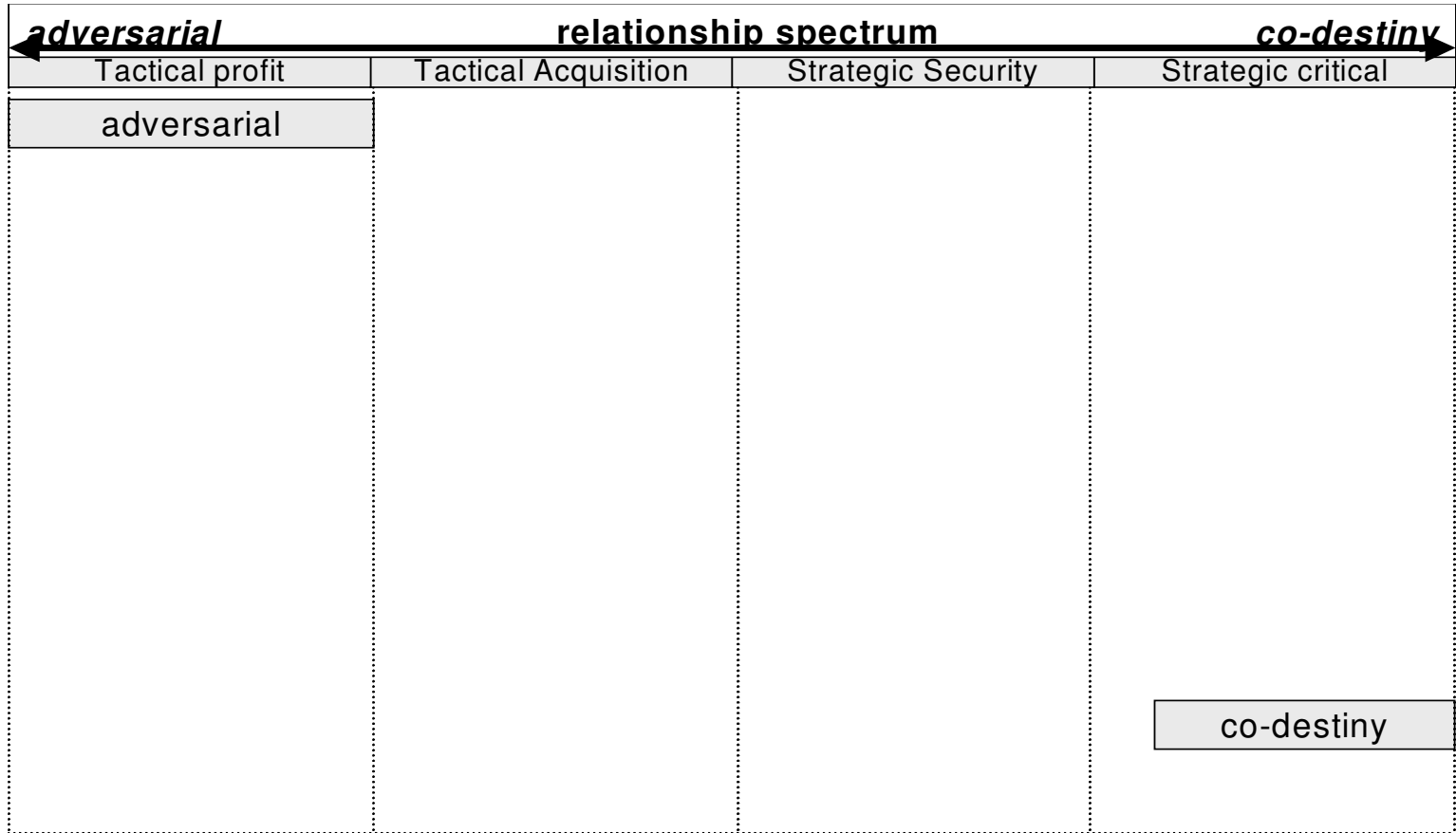


RELATIONSHIP SPECTRUM



Relationship spectrum 3

(Diagram from course book by Mike Fogg)



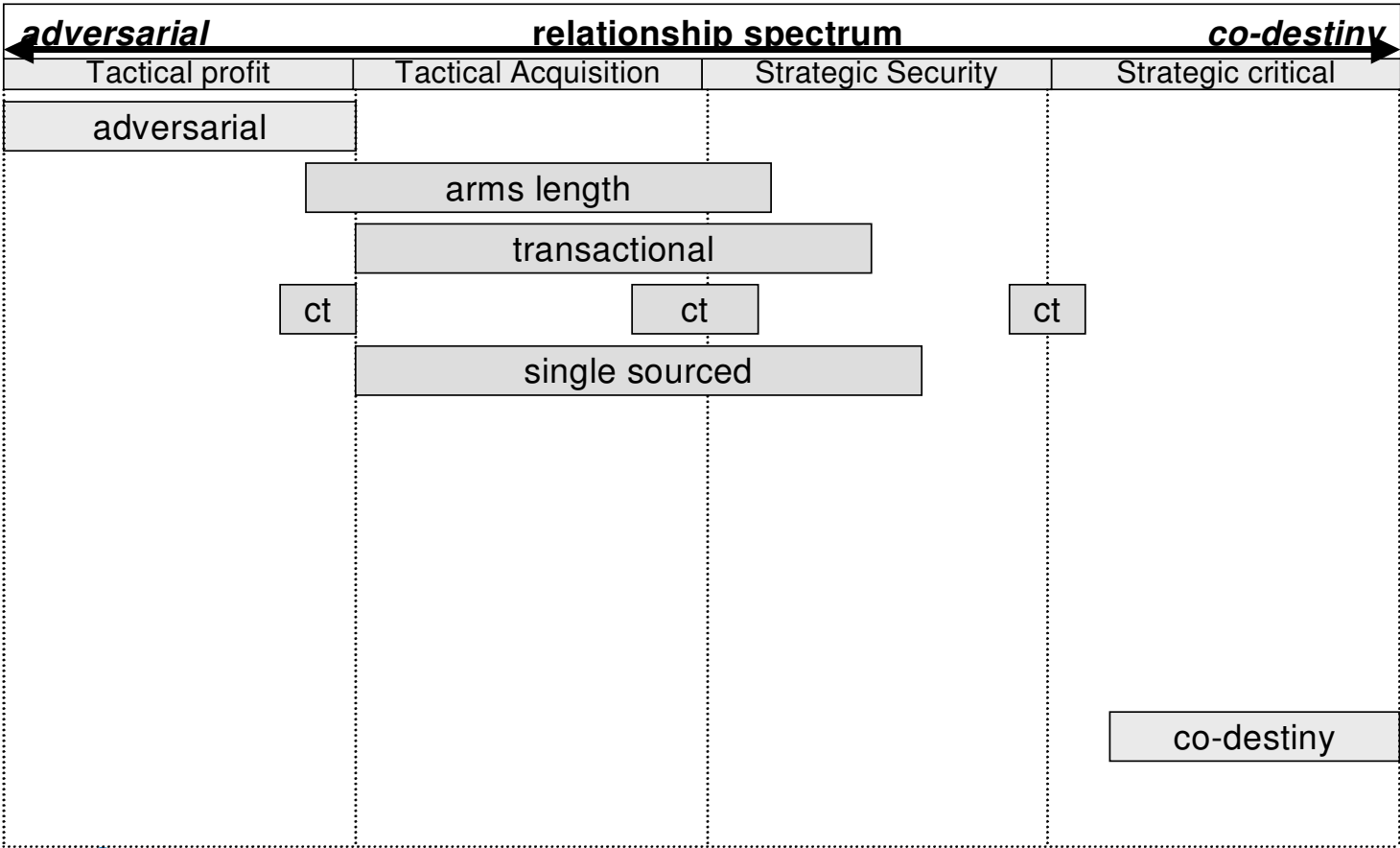
Tactical relationships

- Adversarial
- Arm's length
- Transactional
- Closer tactical
- Single sourced
- *What examples of each can you give from your experience?*



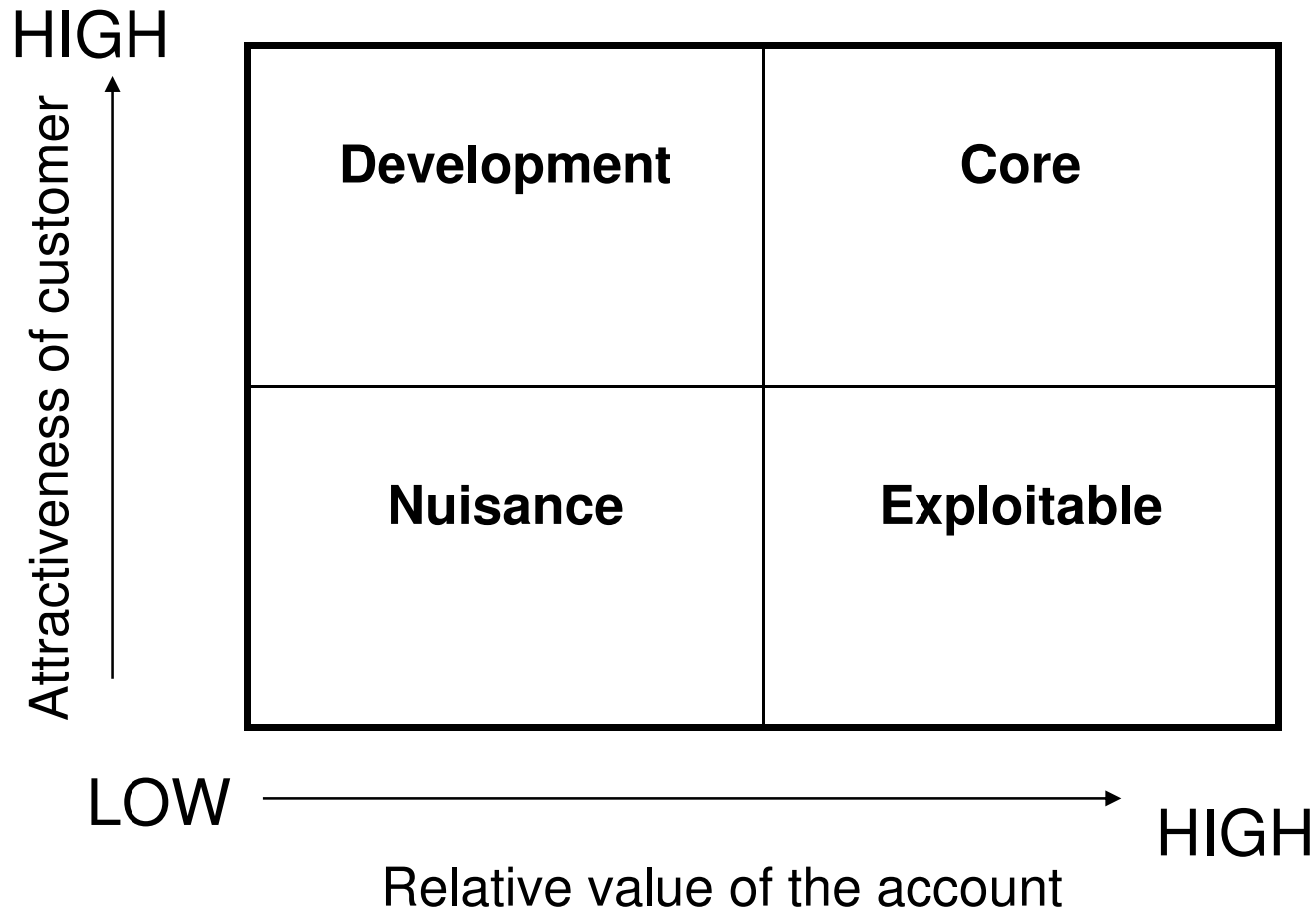
Tactical relationships

(Diagram from course book by Mike Fogg)



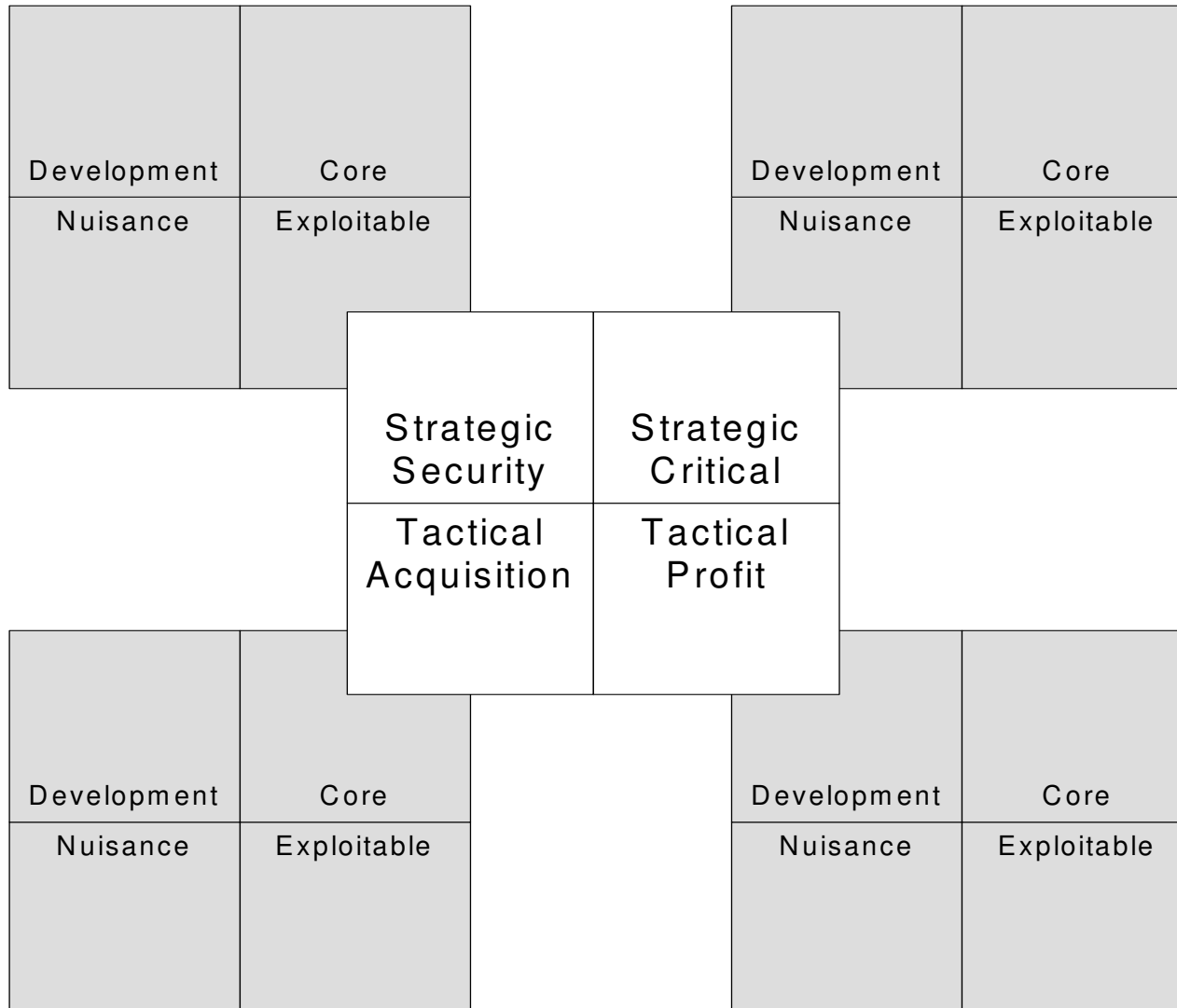
Supplier preferencing model

(Paul Steele and Brian Court, *Profitable Purchasing Strategies*, McGraw Hill)



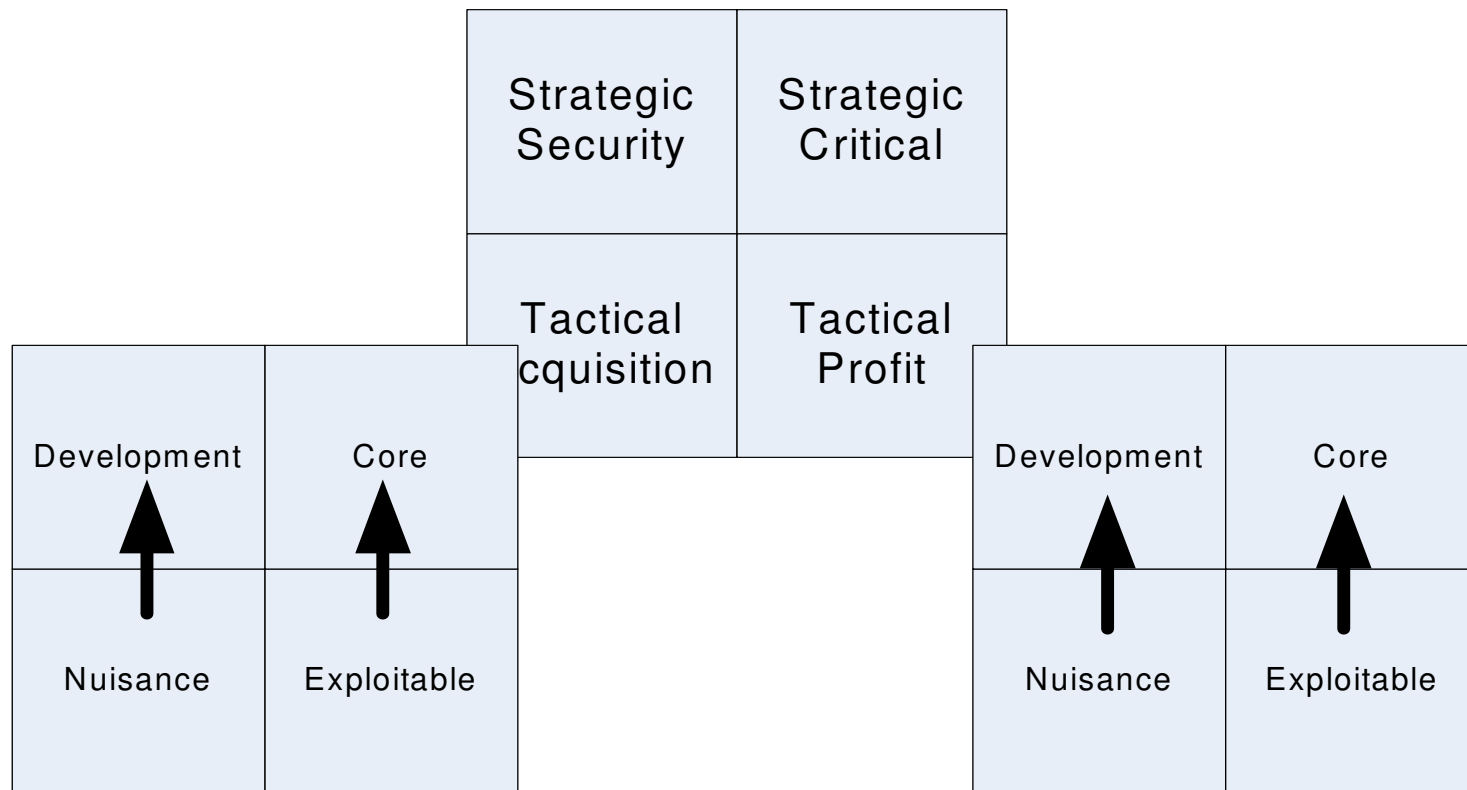
Marketing management matrix

(Paul Steele and Brian Court, *Profitable Purchasing Strategies*, McGraw Hill)



Tactical relationships

(Diagram from course book by Mike Fogg)



Strategic relationships

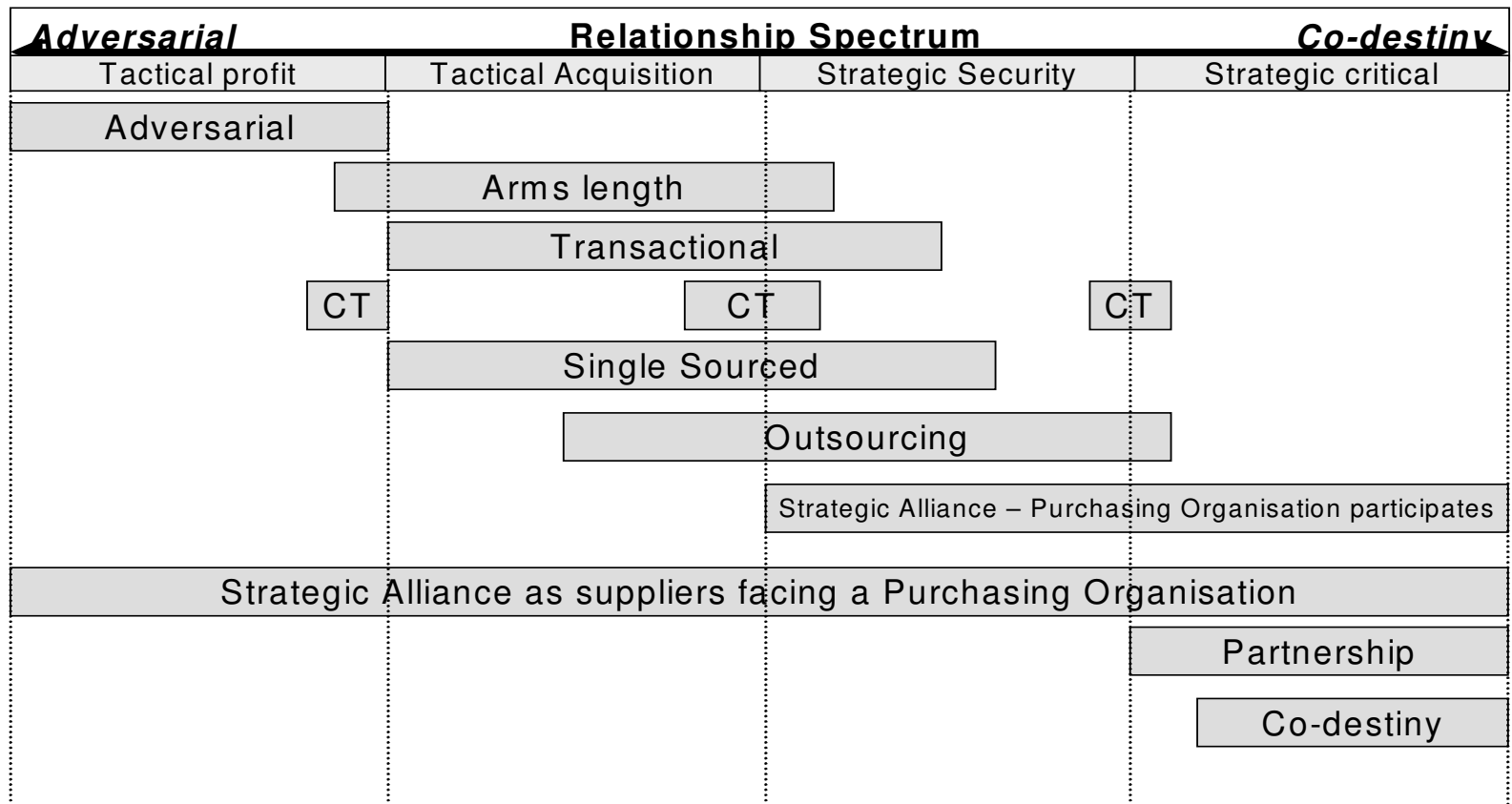
- Outsourcing
- Strategic alliance
- Partnership
- Co-destiny

What examples of each are you aware of in your own organisation?



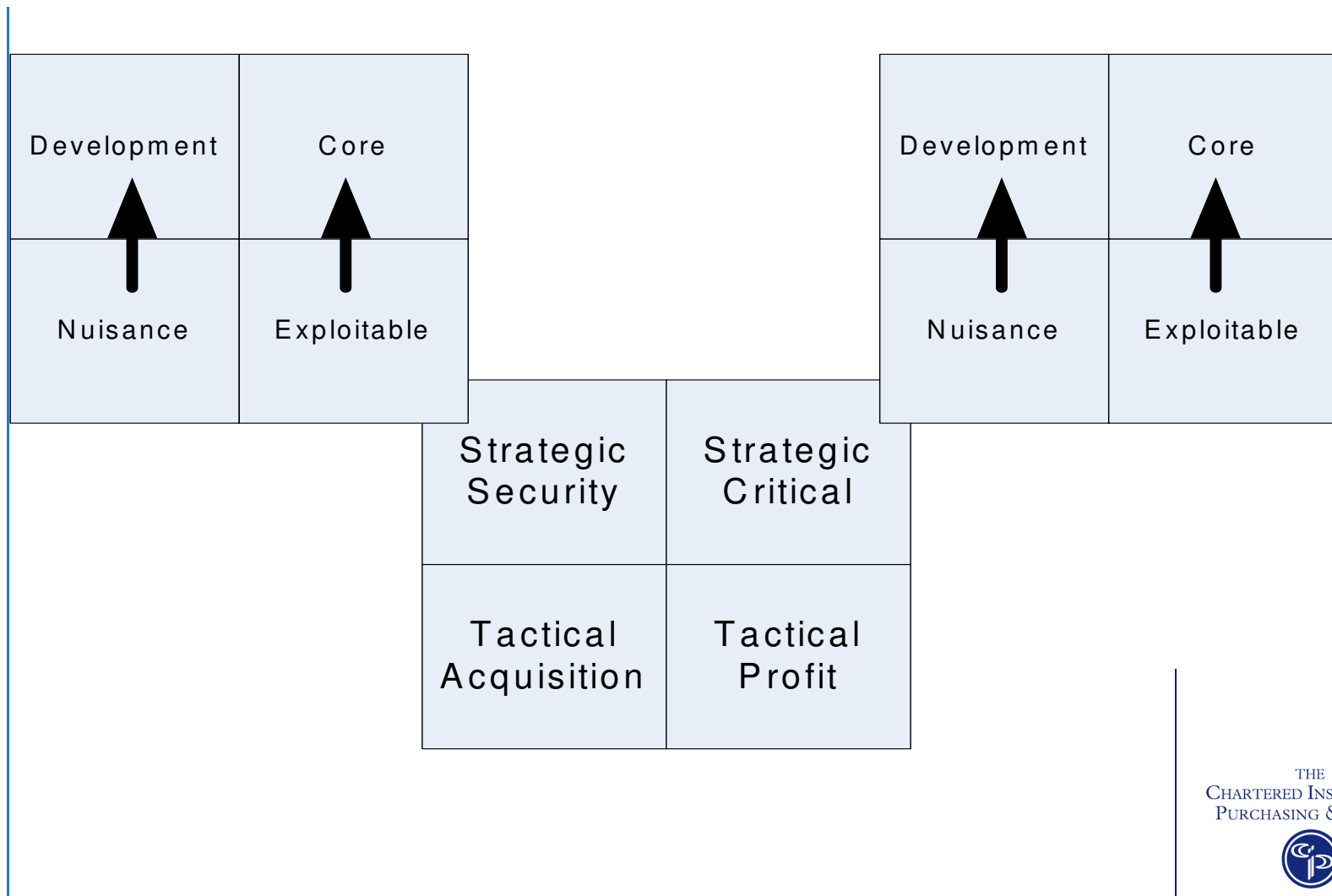
Relationship spectrum

(Diagram from course book by Mike Fogg)



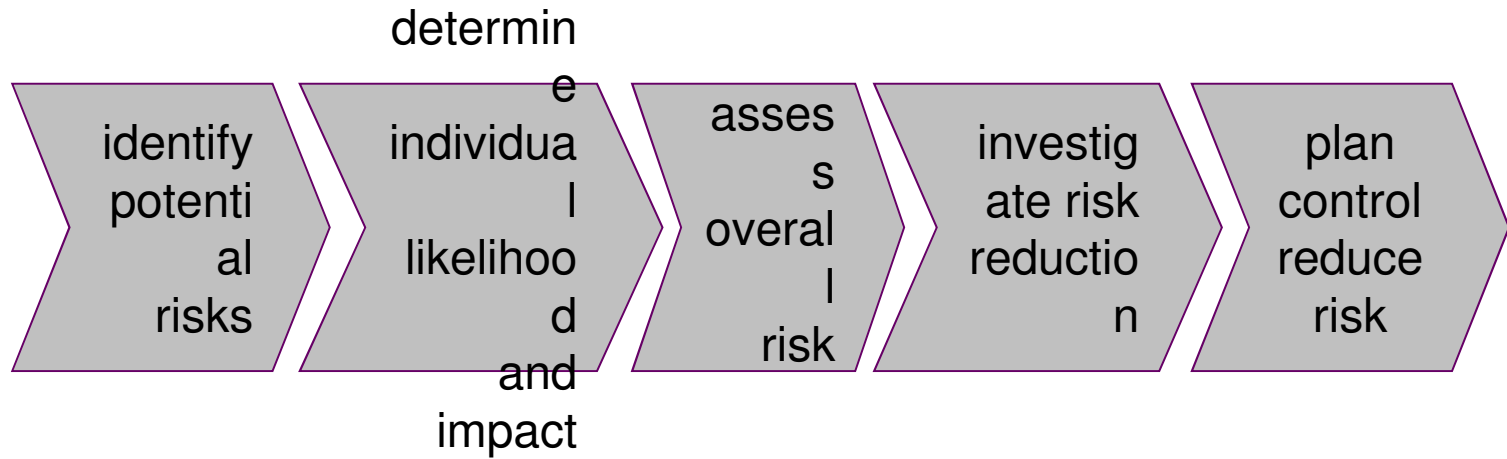
Strategic relationships

(Diagram from course book by Mike Fogg)



Risk management

(Diagram from course book by Mike Fogg)



Risk assessment

(Table adapted from course book by Mike Fogg)

Risk description	Likelihood	Impact	Calc
Risk 1 – example, late delivery	3	3	9
Risk 2	2	5	10
Risk3	2	5	10
Risk4	1	3	3
Risk5	2	4	8
Total			40



Selecting strategic suppliers

- Knowledge of people, processes and performance
- Capability to meet requirements
- Compatibility
- Comparison with competitors
- Relationships tend to evolve over time.



Managing purchasing and supply relationships

Session 3

E-purchasing and its impacts on relationships

The relationship life cycle

Managing conflict in relationships



Learning objectives

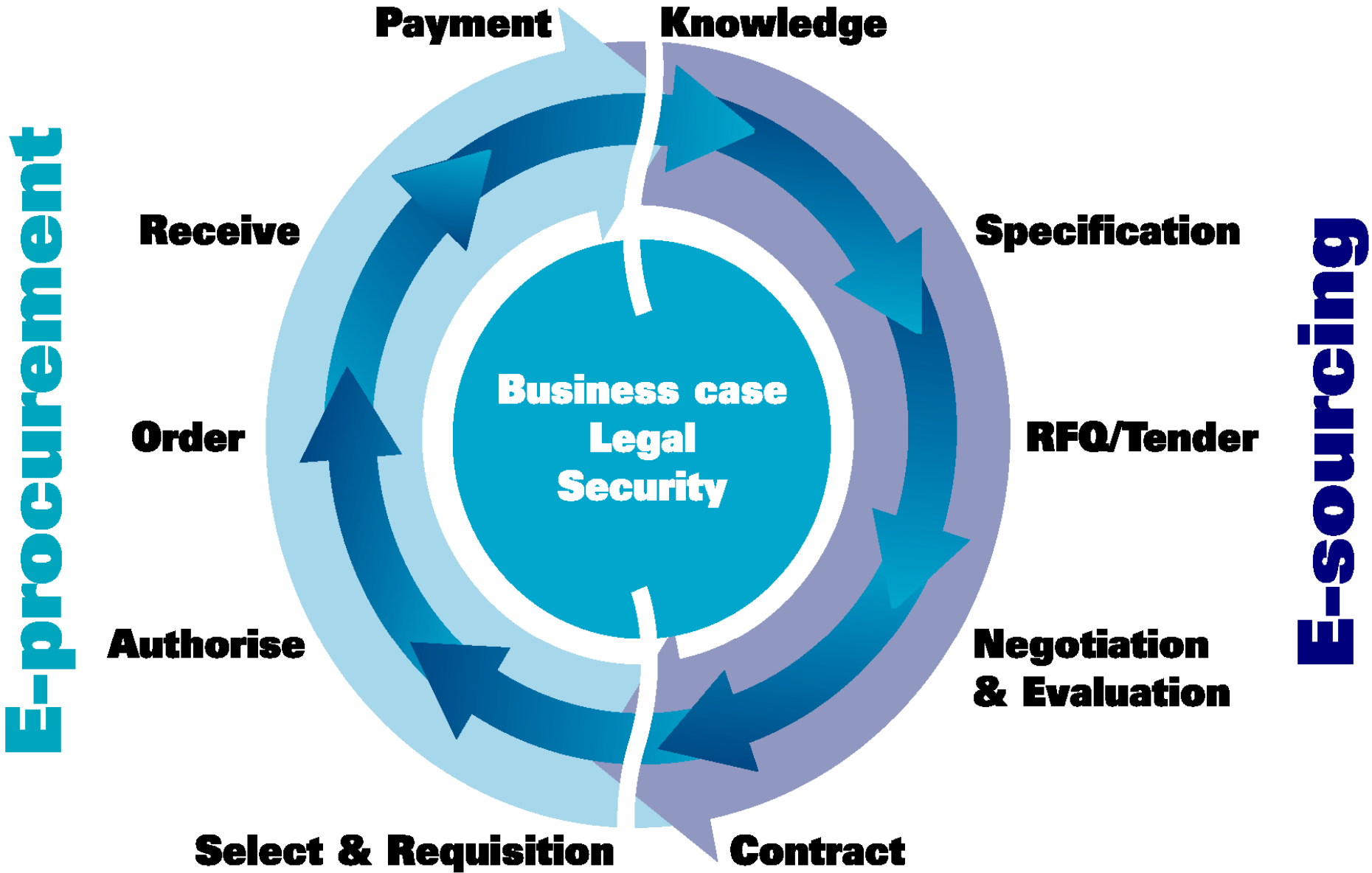
At the end of this session candidates will be able to:

- define what is meant by e-purchasing, and identify key e-purchasing tools
- link the e-purchasing tools to relationships described in the relationship spectrum and the benefits of the relationships sought
- explain how e-purchasing tools can be used to tackle supply situations unfavourable to the purchasing organisation
- analyse the consequences of using e-purchasing tools inappropriate to the relationship sought by the purchasing organisation
- argue the costs and benefits of e-purchasing from a supplier's point of view
- define a relationship life cycle
- appraise the position of their organisation in any given relationship life cycle
- demonstrate the positive and negative role of conflict within a relationship
- assess alternative appropriate courses of action in resolving conflict within relationships
- distinguish between different reasons for termination of relationships
- judge whether termination or retrieval is appropriate, and plan appropriately.



E-purchasing

(Helen Alder)



E-purchasing

- What are the benefits of e-purchasing from a seller's point of view?
- What opportunities are there to reduce costs?
- What disadvantages can you think of?



E-purchasing tools

What e-purchasing tools or capabilities are you aware of in your organisation?

Examples:

EDI (Electronic Data Interchange)
electronic catalogues,
EFT (Electronic Funds Transfer)



Use of e-purchasing tools in unfavourable situations

- Cartel
- Monopoly
- Supplier treats the purchasing organisation as a nuisance!

What other examples are you aware of?



The relationship life cycle

- Initiation – both parties identify each other's needs and aspirations.
- Agreement – relating to a specific deal or requirement.
- Delivery – goods and services delivered for as long as required.



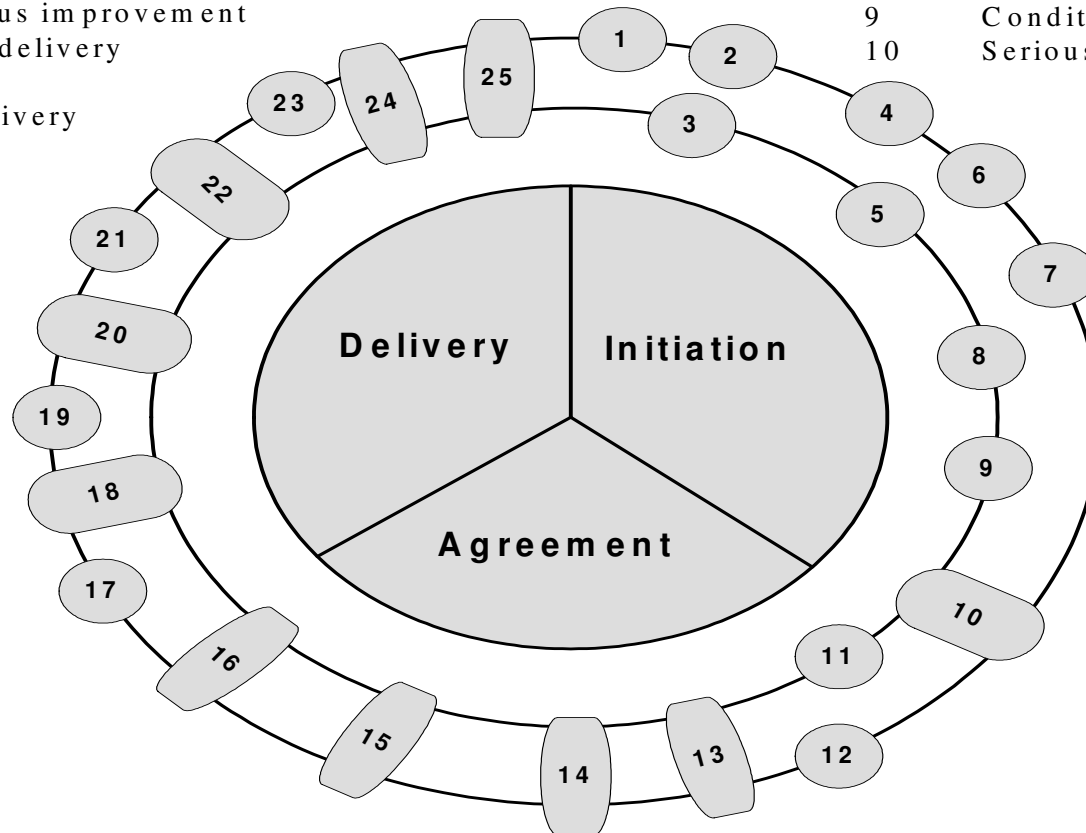
The relationship life cycle

Steps within the Delivery segment are:

- 25 Final termination
- 24 Latent termination
- 23 Completion
- 22 Extension
- 21 Business development
- 20 Continuous improvement
- 19 Ongoing delivery
- 18 Refining
- 17 Initial delivery

Steps within the initiation segment are:

- 1 Seller develops offering
- 2 Seller there to be found
- 3 Buyer has need
- 4 Seller creates need
- 5 Buyer specifies
- 6 Conditioning by seller
- 7 Seller sells
- 8 Buyer searches
- 9 Conditioning by buyer
- 10 Serious discussion



Steps within the agreement segment are:

- 11 Buyer enquiry
- 12 Seller quotation
- 13 Negotiation
- 14 Headline agreement
- 15 Detail agreement
- 16 Implementation

(Diagram from course book
by Mike Fogg)

Conflict in relationships

- There are many occasions when conflict might arise, particularly where there is lack of clarity about the nature of the relationship or any agreements entered into
- Resolution should take a problem-solving approach, where both parties seek the facts and identify options which mean that the situation can be resolved within the boundaries of the relationship.



Terminating a relationship

- Often a serious event, unless perhaps the contract is already at or near the end of its useful life
- Termination may be due to many factors, such as a breakdown in the relationship, supplier unable to meet demand, or changes in the buyer's needs

What experiences have you of termination of relationships: and what were the consequences?



Managing purchasing and supply relationships

Session 4

Corporate social responsibility

Lean and agile relationships



Learning objectives

At the end of this session candidates will be able to:

- identify the component parts of 'corporate social responsibility'
- argue the cases for and against corporate social responsibility
- identify how corporate social responsibility impacts on purchasing and supply relationships
- distinguish traditional manufacturing supply philosophies from both lean and agile supply philosophies
- assess the lean supply philosophy
- assess the agile supply philosophy.



Corporate Social Responsibility (‘CSR’)

- A widely-accepted concept, embodying a collection of related issues which combine to describe an organisation’s overall ethos, personality, philosophy and character
- Included are environmental responsibility, diversity and supplier diversity, ethics and ethical trading, and impacts of business and commerce on wider society
- What examples have you within your organisation, or ones that you know well, of the impact of CSR on the purchasing and supplier relationship?



Corporate Social Responsibility (‘CSR’)

- Drivers to improve CSR within a purchasing and supply relationship are varied, and include:
- customers and other stakeholders
- political parties
- public opinion and the media
- employees and their trades unions.



Lean thinking

- Specify customer's perception of value
- Identify steps across the value chain
- Act to create smooth flow and eliminate waste
- Make for the customer when they want it
- Generate a culture of continuous improvement.



Agile supply

'..using market knowledge and a responsive supply network to exploit profitable opportunities in the market place'

CIPS Position on Practice

THE
CHARTERED INSTITUTE OF
PURCHASING & SUPPLY



Agile Supply

- Driver is shortening product life cycles and changing customer needs
- Includes 'late customisation' and 'postponement'
- Stock held at appropriate levels in bill of materials
- Utilises collaborative working and extensive supplier networks with strong relationships.



Lean and agile in manufacturing

- Traditional – focuses on economies of scale to maximise output and control costs; just-in-case ('JIC') not just-in-time ('JIT')
- Lean – goods produced when the customer wants them, to the standard demanded, with a focus on customer value and the elimination of waste.
- Agile – semi-finished goods tailored and customised to each individual customer's requirements, with a focus on customer's changing needs.



Waste in the supply chain

- Over production
- Waiting times
- Unnecessary transportation
- Inappropriate processing
- Stock (WIP, buffer stock)
- Unnecessary movements of stock and goods
- Defective products
- Unsafe practices.



Managing purchasing and supply relationships

Session 5

Supplier appraisal

Evaluating the effectiveness of supplier appraisal



Learning objectives

At the end of this session candidates will be able to:

- define and distinguish between terms commonly used in different supplier assessments
- explain the objectives of supplier appraisal
- design a supplier appraisal process
- explain the impact of internal suppliers on the supplier selection and appraisal process
- analyse the deliverables of supplier appraisal for the purchasing organisation
- consider a supplier's view of supplier appraisal
- assess the impact of supplier appraisal upon relationship development.



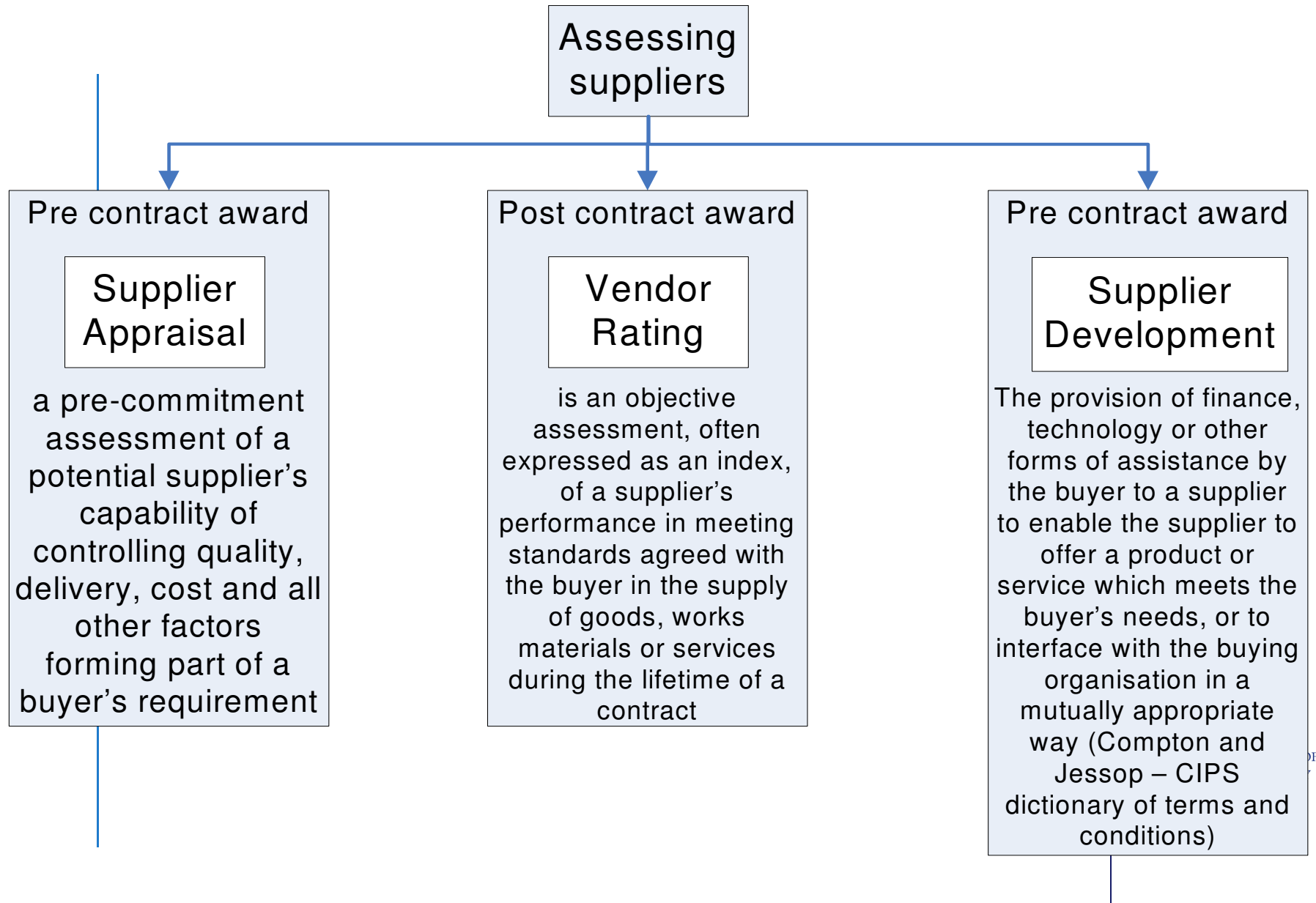
Supplier appraisal

- Assess the benefits of working together
- Capacity to meet requirements
- Cost of meeting requirements
- Consider development of relationship.

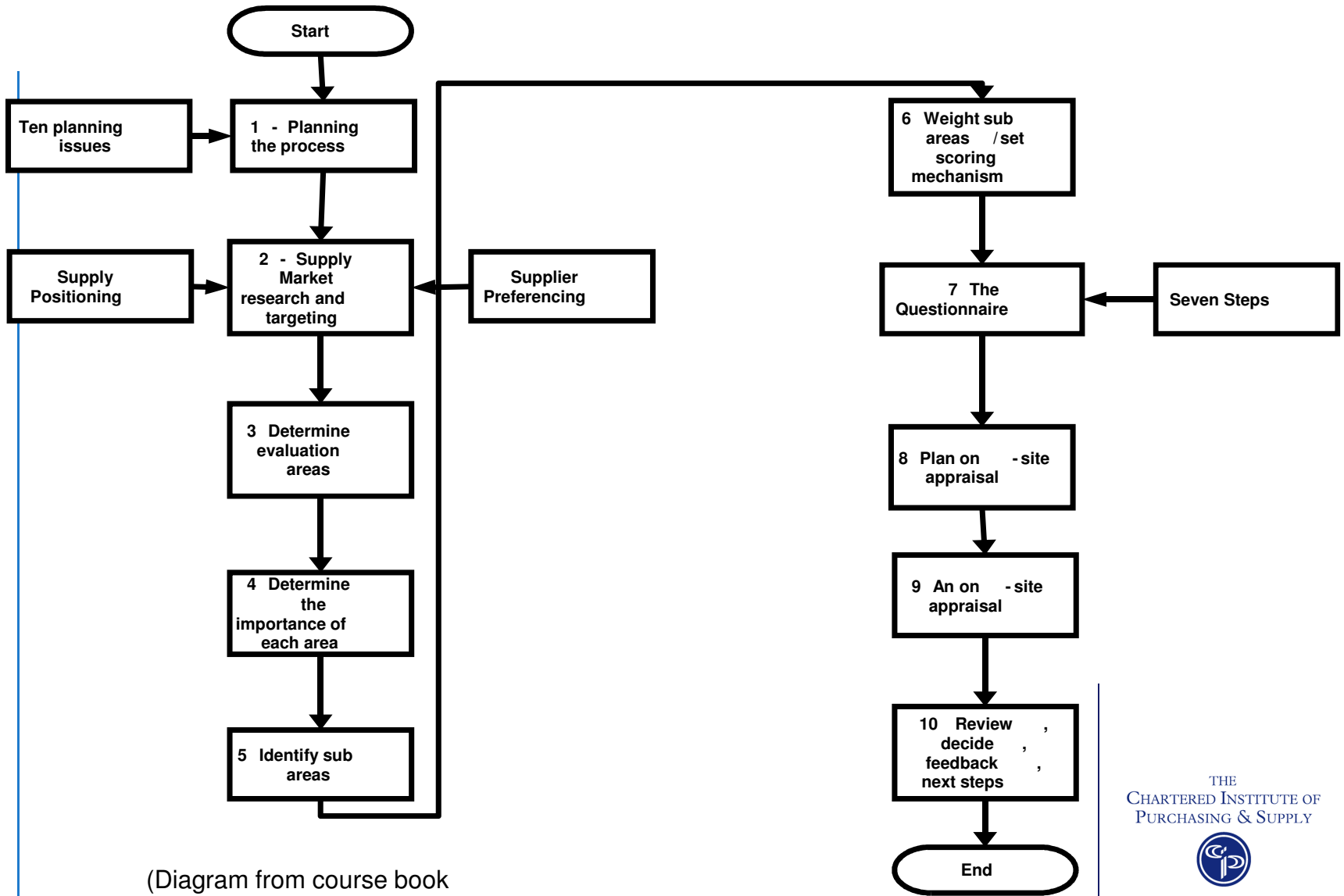


Assessing Suppliers

(Diagram from course book by Mike Fogg)



A supplier appraisal process



(Diagram from course book by Mike Fogg)

Conducting supplier appraisal

Supplier's expectations include:

- clear objectives set for the appraisal
- time to prepare for the visit
- opportunity to gather information on purchasing organisations
- objective assessment
- involvement in the process of appraisal
- risk to own business of initiating the relationship
- feedback in how well they did!

Suppliers understand that if they want business they need to show that they are capable of meeting the requirements at the right price.



Evaluating supplier performance

- Price
- Quality
- Delivery
- Customer satisfaction

Performance management systems can be complex; and should include alerts when KPIs are not met.



Managing purchasing and supply relationships

Session 6

Process constraints applicable to public sector purchasing

Reciprocal trading



Learning objectives

At the end of this session candidates will be able to:

- contrast the process constraints in the public sector with those in the private sector
- summarise the purchasing routes available to public sector organisations
- argue the case for and against the current legislation
- define what is meant by 'reciprocal trading'
- state which purchasing processes are impacted by reciprocal trading
- propose a policy for reciprocal trading.



Public and private sector

Public

Includes government departments and local authorities

Legally bound by EU procurement rules to consider all EU suppliers equally

Money comes from funds raised by government from corporate and individual tax payers.

Private

Includes plcs, partnerships, sole traders and charities

Not legally bound by EU procurement rules, free to include or exclude suppliers at will

Accountable to organisation for spending monies raised from financial stakeholders.



EU procurement directives

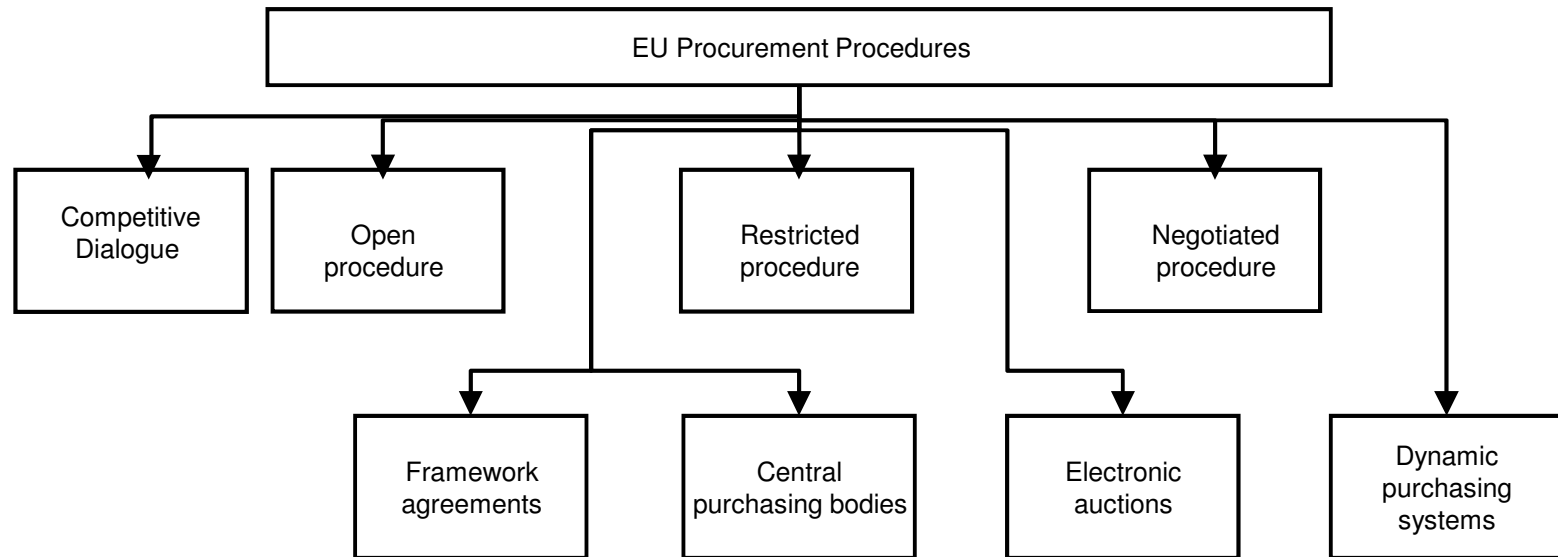
When triggered by exceeding spend thresholds, all EU public bodies must:

- notify the European supply market of the requirements and opportunities for business, and give reasonable time for responses ('OJEU')
- outline selection criteria clearly ('MEAT')
- show that they treat all suppliers equally
- use mandated processes
- comply with processes, or risk severe legal penalties.



EU procurement

(Diagram from course book by Mike Fogg)



Reciprocal trading

Reciprocal trading, or counter trading, is an agreement that makes being a customer of an organisation a condition of becoming a supplier to that organisation. CIPS view is that this is generally not an acceptable business practice.

CIPS Position on Practice

Have you had any experience of reciprocal trading agreements?

In what situations might they be acceptable?

Managing purchasing and supply relationships

Session 7

The risk and cost of changing supplier

The process of outsourcing

THE
CHARTERED INSTITUTE OF
PURCHASING & SUPPLY



Learning objective

At the end of this session candidates will be able to:

- identify the possible risks in a change of supplier
- demonstrate what is meant by the cost of change
- formulate strategies for reducing exposure to risk when changing supplier
- distinguish between service contracts, outsourcing and sub-contracting
- determine why organisations are outsourcing and the benefits they seek
- determine what organisations typically outsource
- explain a process for outsourcing, taking into account the needs of the purchasing organisation's business
- explain how recent UK legislation and case law impacts upon the process of outsourcing
- state reasons why some organisations are 'insourcing'.



Risks of changing supplier

- 'Out of the frying pan into the fire' – the new supplier is not able to meet targets for price, quality, delivery and so on.
- Having to return to the original supplier and attempt to revive/renege that contract.
- Losing the benefits of a long-term relationship.
- Risks are usually greater with a 'strategic/critical' supplier than with a 'tactical' one.



Costs of changing supplier

- Time and resources to select new supplier
- Phasing in and phasing out
- Transaction and administration
- Relationship development
- Learning curve.



Preventing exposure to risk

- Check contract terms and conditions of outgoing supplier so there are no surprises
- Debrief with outgoing supplier to check that there is nothing that you need to know if the termination was acrimonious
- Deflect some of the risk to the supplier by inserting a clause in the contract to cover the transition period
- Ensure there are contingency plans to cover changing suppliers.



Drivers for outsourcing

(Beulan et al)

- Quality – increased quality demands, shortage of trained staff and transition.
- Cost – to assist in controlling and reducing costs.
- Finance – to avoid diverting funds from core business.
- Getting rid of non-core activities, to allow organisations to concentrate on their core business.



Outsourcing: definitions

- Service contract – legally binding contract exists between purchaser and supplier.
- Subcontracting - delegating part of your responsibilities under a contract to another person or business. Many contracts restrict the ability of the parties to do this.
- Outsourcing - placing non-core (and core?) business activities with external specialists.



Outsourcing: aspects

- Requires a legally-binding contract, as the purchasing organisation is still responsible for the service provided to its customers.
- Service is delivered by the supplier's employees, not 'our' employees.
- The supplier gets paid, not our employees.
- Contracts are usually long-term.
- The supplier is given a level of control and autonomy over delivery of the service.



The processes of outsourcing

Strategic analysis of current position and identification of core and non-core activities.

Identification of target areas for outsourcing.

Clear and unambiguous specifications set.

Selection of supplier.

Implementation and review.

Development of relationship.



Outsourcing: EU directives

- The EU Acquired Rights Directive 2001 enacted in the UK by the 'TUPE' Regulations (Transfer of Undertakings Protection of Employment)
- In situations of outsourcing when employees move from one organisation to another, TUPE regulations broadly state that employees must retain the same terms and conditions of employment.
- In an outsourcing situation both parties must be clear what and who is being transferred, and what/who isn't.



Insourcing

- If the expected benefits of outsourcing do not materialise, companies may terminate the contract with the supplier and revert to paying their employees to supply the service.
- Some organisations may attempt to renegotiate the contract with the supplier rather than take the business back in-house.

What experience have you of insourcing?

Why was the original decision made to outsource?

What went wrong?



Managing purchasing and supply relationships

Session 8

Managing and maintaining an outsourced relationship

The impact of organisational culture on relationships



Learning objectives

At the end of this session candidates will be able to:

- evaluate the differences in relationship between an internal customer department and a service department to that internal customer before and after the service department is outsourced
- contrast the objectives of the purchasing organisation and the outsourced service provider over the life of the contract
- calculate the typical areas of cost and benefit of outsourcing
- formulate performance measures to ensure delivery of promised benefits
- compare 'outsourcing' relationships with other relationships within the relationship spectrum
- evaluate the change in relationships between the people delivering and receiving a service when that service is outsourced
- identify different cultures and their impact upon relationships within the supply chain
- appraise the different cultures and pick out circumstances where cultures may complement and conflict with each other.



Outsourcing internal functions

- When a function that was once a part of the organisation is outsourced, it becomes a supplier to the organisation.
- The relationship and management of that function inevitably then changes.

(A typical example: a school outsourcing its canteen)

- The function (as a new supplier) will now be working to a specification set out by the purchasing organisation (their former employers)

How do you think that might affect the way that you, as a buyer, would now work with that function?

Organisational culture

- Deep-rooted and resistant
- Difficult to change
- Defines 'the way things are done round here'
- Defines who has the real power in the organisation
- Based on tradition, shared values and beliefs
- Includes rituals and routines, and sets norms for behaviour
- Maintained through power structures, management controls and supervision, and many less formal routes
- Stories told in the organisation are indicators and perpetuators of organisational culture.



Examples of organisational culture

- Paternalistic – perhaps a traditional family firm
- Bureaucratic – focuses on hierarchy and procedures
- Aggressive – tendency to fight, perhaps characterised by lack of trust
- Progressive – forward thinking.



Managing purchasing and supply relationships

Session 9

Relationships in an International setting

Power, dependency and multi-tiered relationships



Learning objectives

At the end of this session candidates will be able to:

- evaluate the differences of maintaining relationships with suppliers in different parts of the world
- assess the steps that may be taken to protect the position of an organisation when buying or selling internationally
- evaluate how multi-national organisations use their power
- evaluate the benefits that multi-national suppliers bring to multi-national customers
- show diagrammatically how a supply base may be tiered to provide advantage to the buyer
- assess the benefits of supplier tiering
- consider control mechanisms for delivering benefit from a tiered supply base
- analyse the circumstances when dependency is a critical issue in supply relationships.



Potential cultural barriers

Different:

- spoken language
- body language
- time
- values
- beliefs
- manners
- etiquette
- management styles
- communication styles
- financial rules
- legislation
- ethical standards.



Overcoming national/cultural barriers

- Information technology is improving speed and quality of the flow of information and universal IT skillsets.
- Many countries recognise the benefits of co- operation and seek to facilitate it.
- Many organisations now manage diverse workforces.
- Students are taught global management.



Protections when trading internationally

- Appoint overseas agents.
- Use letters of credit.
- Use Incoterms (International Chamber of Trade terms)
- Establish an overseas base.

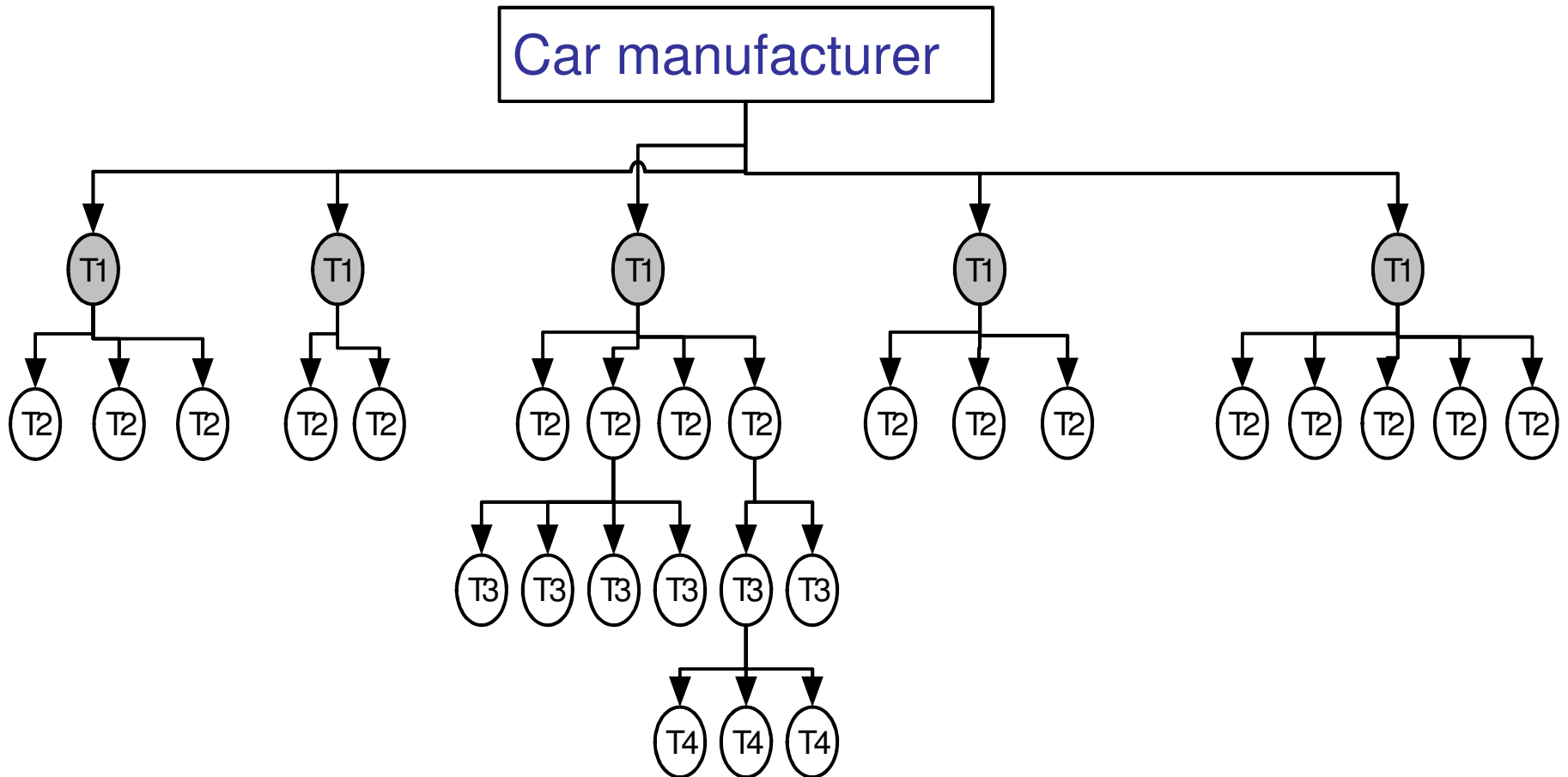


Power of multinationals

- Leverage.
- Standardisation of goods and services and setting quality standards.
- Strategic selling and pricing policies.
- Determining development strategies.
- Promoting corporate social responsibility.



Supplier tiering



Supplier tiering

Supplier tiering removes the need for a buyer to work with every single supplier to the organisation.

*What are the key benefits for:
the purchasing organisation?
the suppliers?*



Managing purchasing and supply relationships

Session 10

Supplier and relationship development

**Measuring relationships and their
development**

THE
CHARTERED INSTITUTE OF
PURCHASING & SUPPLY



Learning objectives

At the end of this session candidates will be able to:

- define supplier and relationship development
- give examples of supplier development and relationship development opportunities
- evaluate costs and benefits of development opportunities to both buyers and suppliers
- evaluate why and when buyers would benefit from measuring supplier performance and the strength of relationships
- assess how sellers see the relationship with buyers
- give examples of measures used in supplier performance measurement for both goods and services
- give examples of relationship measures.



Supplier relationship management (SRM)

‘The process for managing the interaction between two entities, one of which is supplying goods, works or services to the other. SRM is a two-way process in that it should improve the performance of the buying organisation as well as the supplying organisation, and hence be mutually beneficial.’

CIPS Glossary of Terms 2006

THE
CHARTERED INSTITUTE OF
PURCHASING & SUPPLY



Supplier development

(Taken from course book by Mike Fogg)

Form of supplier development	Percentage of organisations practising this form
enhancing working relationships	72.1%
increasing performance goals	68.1%
requiring supplier capability improvements	51.5%
providing support personnel	27.9%
conducting training programmes	25.3%
agreeing to contingent liability	17.6%
providing capital	10.3%
providing equipment	11.8%
providing progress payments	8.8%

From *Purchasing and Supply Chain Management* by Monczka, Trent and Handfield.
© 1998. Reprinted with permission of South-Western, a division of Thomson Learning.

THE
CHARTERED INSTITUTE OF
PURCHASING & SUPPLY



Supplier development

You purchase training services from a large training provider to help you to deliver the management development programmes in your organisation.

You feel it is time for both of you to get to know each other better, as this should impact positively on the quality of the training.

What are the potential opportunities and the associated costs of developing this relationship?



Measuring satisfaction

Benefits of measurement include:

- both parties form an objective view of each other
- agreed targets of satisfaction mean that standards can be maintained and improvements identified
- measurements can be used to inform constructive discussion
- enables the relationship to continue as both parties have a clear understanding of what is expected.



Measuring supplier relationship development

- Willingness to interact and proactiveness in seeking improvements.
- Ability to listen and to use feedback to improve performance.
- Willingness and capability of devoting resources to relationship development.



Purchaser-supplier satisfaction

(Reproduced from course book by Mike Fogg)

