Creating Customer Value Through Supplier Performance

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Abstract. Many supply chain management processes focus strongly on supply side issues, underestimating the critical link of supplier performance to customer satisfaction. Organizations must eliminate functional barriers and develop operating plans that integrate the needs and requirements of both customers and suppliers in order to ensure the success of both.

Introduction. An aggressive and high performing supply management process is a critical element of operational success, and a key component of satisfying customers. Supply chain professionals, tasked to manage the performance of the supplier community to ensure that the acquisition of goods and services meet the quality, delivery, and value criteria of their own organization, should also concentrate on the needs of external customers. Many supply chain management processes focus strongly on supply side issues, underestimating the critical link of supplier performance to customer satisfaction.

The misalignment between customer satisfaction and supply base performance centers on organizational and operational factors. In many organizations there is a lack of understanding of the importance of the supply management process, resulting in meager support, insufficient staffing, and functional snobbery. Operationally, poor information flow, inadequate planning, and lack of understanding of customer needs creates a downward spiral that actually prevents suppliers from performing up to their actual level of capabilities. Organizations must eliminate functional barriers and develop operating plans that integrate the needs and requirements of both customers and suppliers in order to ensure the success of both.

Organizational Issues. There are two types of organizations. One organization recognizes the needs of the customer and integrates a customer-focused philosophy into their day-to-day processes. They strive to include all business functions into meeting the needs of the customer. Simply, the other type of organization does not. It is imperative, in this time of global competition and vacillating economic conditions, that customer needs be known by all in the organization. The supply management function in particular must have a clear understanding of customer requirements so that they can be communicated throughout the supplier community.

Progressive supply chain philosophies certainly encourage linking the customer directly into operations. In the popular philosophy of supply chain management, encompassing the linkage from the customer’s customer to the supplier’s supplier, customer requirements must be understood and communicated throughout the supply chain. However, in many organizations, customers are often hidden from view by the very internal functions that pride themselves on customer relationships, including marketing and sales. There is often a function snobbery that prevents the necessary open flow of communication. Supply management professionals are often left out of the critical decision making loop by those who do not feel that they are important enough to include. Those who bring in customers are often the stars of an
organization. Shamefully, those who have the greatest impact on the income statement, purchasing professionals, are often poorly treated and disrespected.

While the vital importance of purchasing and supply management has been well documented, there unfortunately exists a lack of respect for the profession in many organizations. This lack of respect festers into a lack of inclusion for purchasing professionals, leading to inferior sourcing, poor supplier selection, and inadequate supply management. Poor supplier selection often leads to poor supplier performance, perpetuating the negative impact on the operation of the organization that is striving to meet the needs of the customer. Additionally, some companies look at suppliers as a necessary evil, and by extension, fail to include them in meeting customer requirements.

Many purchasing organizations are poorly staffed, and at the same time, under intense pressure to reduce costs and increase supplier performance. During times of economic hardship, effective procurement efforts can go a long way in improving company operations through cost savings initiatives, inventory management, and supplier performance management. Too often, head count reductions and organizational changes are focused on general overhead issues rather than the positive financial contributions of the functions being affected. A dollar of cost savings is worth at least two dollars of sales revenue.

Certainly not all organizations treat supply management professionals, or suppliers, poorly. Many recognize the contributions of supply side operations, not only to assist in customer satisfaction, but also to contribute to the operational and financial success of the firm. Once the organizational issues have been reconciled, the operational issues migrate to the forefront. Managing for supplier performance is critical.

**Operational Issues.** Supply management organizations are responsible for establishing supplier performance criteria and aggressively, and thoroughly, managing suppliers to meet those criteria. Supply management focus on cost management, on-time delivery, and quality are three of them most important tactical operational activities that have a direct impact on end-customer satisfaction. However, there are three additional strategic elements that are critical to customer satisfaction. Supply chain communication, sourcing relationships, and supplier development are the glue that holds the supply chain together, allowing for the opportunity of customer facing success.

The lack of communication between the buyer and seller is the largest contributing element to poor supply chain performance. The buying organization has the responsibility to establish clear manufacturing requirements, including specifications and documentation, which the supplier can follow. Clear performance expectations must also be documented, reasonable, and valid. Conversely, the supplier has a responsibility to inform the buyer of delivery delays, process related problems, or other issues that would impact the buyer’s operation. Of course, the customer also has the responsibility to provide clear and reasonable requirements.

A thorough understanding of sourcing relationships in the supply chain is of strategic importance. Those organizations that identify and map out critical supply chain relationships across and down the supply chain will have greater control over performance and quality. Providing support to the buying organizations of critical suppliers will result in greater levels of supply side communication and allow for the identification of performance and cost issues
while they are preventable. The supply management function must understand and capture the scope of the supply grid that supports their purchases. The one buyer and one supplier relationship is inadequate.

Supplier development efforts are often driven by the purchasing organization in response to negative supplier performance issues. The goals for manufacturing organizations include on-time delivery of conforming materials and services, improved manufacturing and logistics processes resulting in condensed cycle times, and reduced total acquisition costs. In certain commodities, the buyer may find that there are alternate suppliers available that could meet performance objectives. In this case, the cost of switching suppliers may be low. However, if the supplier is a critical one, the cost of switching to an alternate source may be prohibitive, and supplier development efforts may be required to improve performance. Supplier development is often a cross-functional responsibility, and companies must be willing to fund this critical effort.

**Reconciling the Process**. There are responsibilities on both sides of this issue to bridge the gulf between customers and suppliers. Companies must realize that the customer must be the focus of all efforts. This is more than employing sophisticated customer relationship management software. It means bringing the requirements of the customer directly into the operation and allowing all employees the opportunity to become intimately familiar with the needs of the customer. Management has the responsibility to align their business goals with the primary needs of the customer, and further, align internal functions such as supply management with overall company goals.

It is important to understand how your company competes in the marketplace. Only then can you develop a supply chain management strategy that will be properly aligned to the goals of your business. No supplier selection, measurement, or improvement efforts can be successful until you understand the objectives of your own organization. Senior management has the responsibility to educate all employees on their business objectives, including the performance measurements linked to those objectives.

Supplier performance goals must be identified as a critical metric and be measured and tracked as part of the organization’s annual operating plan. Only then can the senior management track supplier performance and see how this measurement integrates with other important criteria. Often supplier performance is not recognized as an important measure of operational performance, and companies are puzzled as to why they may not be meeting their customer service goals. Simply, late deliveries from suppliers cause late deliveries to customers. Poor quality from suppliers causes operational snags and ultimately poor quality products sent to customers. And, supply chain costs that do not meet established goals might have a significant impact on not only customer pricing, but also internal operations, financial results, and market share.

Supply management organizations also need to step up and assume responsibility. There is often a cleaving of responsibilities, where purchasing professionals traditionally look at the supplier end of the supply chain while marketing and sales looks at the customer end. This cannot continue to happen. Progressive supply management organizations must demand to be included in customer facing activities. Historically, purchasing organizations have yearned to be included in mainstream management activities. They have consistently and faithfully
claimed that they provide value to the firm. Many companies have finally listened, and supply management has a place at the management table with the rest of the team, usually evidenced with the inclusion of performance goals on the annual operating plan. Now that they have management’s attention, they must perform.

Suppliers also have a responsibility to understand that their performance impacts end customer satisfaction. Many suppliers are myopic in their thing, assuming that their lackluster performance has marginal effect on their primary customer, and no effect on the end customer. In actuality, their performance directly impacts the end user. This needs to be consistently communicated to the supplier. Poor performance by one link of the supply chain has a ripple effect throughout.

**Summary.** Supplier performance has a definite and significant impact on achieving success with customers. And, the responsibilities for this success are spread throughout the supply chain. Customers must be reasonable in their requests and clearly define their requirements. Organizations must convert these requirements to actionable operating plans that supply management organizations can communicate to the supply base. Finally, suppliers must perform to their highest levels to make the process work. Shortening the linkage between the customer and the supplier is imperative to creating customer value.