Strategies for Rewarding Your Best Suppliers in a Dynamic Supply Chain

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Abstract: The dynamic changes envisioned for tomorrow’s business world tomorrow demand new and dynamic strategies to meet supply management’s strategic responsibilities and roles. Clearly, reshaping traditional suppliers and supply chains is not an easy task. Even our best suppliers will want to know, “What’s in it for me?” A critical supply management problem is how to increase supply chain performance while facing increasingly serious global forces from 1) expanding and increasing global competition, 2) increasing global risk, 3) higher energy costs, 4) increasing market demand for productivity, quality, improved product performance and higher value, and 5) increasing pressure and demands to reduce total cost. We need a practical model to move to even better strategic supply chain operations.

Migrating existing processes to systems that create strategic competitive advantage in cost, quality, delivery and innovative support systems requires dynamic change and leadership. This project will accomplish five things. We will 1) map the dynamic-change process to identify and sequence the mind-boggling changes required to ensure that supply managers meet strategic-organizational expectations, 2) identify and define new knowledge, tools and structure to support supplier development and reward systems, 3) provide models for supplier development/ reward systems to lead suppliers in a dynamic supply chain that exceeds customer expectations, 4) provide a map for professional development and life-long learning for supply managers and leaders at the supplier level, and 5, reinforce these discussions with live examples. Participants will take away two maps and two models to guide the strategic migration of existing supply management professionals, carefully selected suppliers and even supply chains from today’s old world to the dynamic new world of tomorrow.

Mapping the dynamic-change process: To map the dynamic-change process to identify and sequence the mind-boggling changes required to ensure that supply management meets strategic-organizational expectations is not a one step process that is put into operation and completed. It too becomes a living, dynamic, ever-changing organizational process that will live beyond the developers and participants. First we must recognize that nothing is ever as good as it can be and that improvement at workable costs is always possible. Similarly, we
recognize that the current supply management systems in use were developed by managers striving to make improvements set to a time, situation, technology and their best abilities to create and sell the program changes. Finally, we must recognize that change efforts almost always meet resistance and requires great determination and skill to bring those that resist the change onto the team and build the system. We can map the changes system as shown here.

There are many references to supplier awards and recognition programs that have been in existence for considerable periods of time. Professors Krause and Scannell in their fine research project published in The Journal of Supply Chain Management in May 2002 (1) identify several references to supplier development programs existing in the early 1990s and before. A quick Google search will identify many programs with considerable history. For example, an article by Purchasing Magazine in November 2007 includes a reference to chip giant Intel describing the 20th annual Supplier Continuous Quality Improvement (SCQI) award. The SCQI award honors high quality and performance from essential product and service suppliers. The SCQI is highest recognition for a supplier from Intel (2).

From these articles and many others it is clear that a distinct need exists for supplier development and recognition programs and processes that motivate the supply chain to improved total performance in terms of quality, cost, delivery, involvement and service along with increased organizational support to the customer base. Suppliers have become more important over time.

**Identify and define new knowledge, tools and structure:** Over the years we have learned that increasing supplier performance demands new procedures, challenges, tools and processes to motivate suppliers and meet organizational goals. Motivation is defined as any process or tool that can be used to create a desire by suppliers to improve performance to earn an award or to increase the business process. From motivation theory, we know that two broad kinds of motivations exist, intrinsic and extrinsic. Intrinsic concerns things that are nice
and make us feel good. In terms of suppliers, that means, nice plaques, letters and formal recognition. Extrinsic are of more value and mean things of real value. For example, a supplier that receives an increase of business tied to performance would recognize that as a meaningful extrinsic motivation. Similarly, other suppliers that observed the recognition might well be motivated by the challenge to improve its performance and earn a similar recognition.

The table below tools used to evaluate, recognize and motivate our suppliers.

<table>
<thead>
<tr>
<th>Tools</th>
<th>Effects on Motivation and Performance</th>
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<tbody>
<tr>
<td>Supply base rationalization</td>
<td>Motivates those selected to improve performance to stay in the supply base and perhaps to increase business by becoming a single supplier</td>
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<tr>
<td>Supplier development</td>
<td>Involvement and assistance motivates desire to improve performance and create advantage over other suppliers.</td>
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<tr>
<td>Supplier evaluation</td>
<td>Motivates competitive spirit and desire to score high in the field to earn recognition</td>
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<td>Quality focused suppliers (QFS)</td>
<td>Motivates problem solving and improvement of supplier quality in all operations</td>
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<tr>
<td>Supplier involvement tools and procedures</td>
<td>Motivates supplier collaboration and improved contribution to ongoing operations and perhaps additional recognition</td>
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<tr>
<td>Total cost analyses and processes</td>
<td>Motivates suppliers to seek new processes of methodologies with the supply base to seek lower cost performance to improve supply chain operations</td>
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<tr>
<td>In-house or on-site operations</td>
<td>Motivates supplier to recognize that this is the ultimate opportunity to contribute to improves supply chain performance to ensure future business and perhaps earn additional business opportunities</td>
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<tr>
<td>Lean operations, scorecards and lean tools</td>
<td>Motivates suppliers to drive up quality, eliminate waste, solve systemic problems and achieve improved performance</td>
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<tr>
<td>Supplier recognitions programs</td>
<td>Motivate suppliers that receive the award to be even better. Motivate those that observe the award to strive for better results so as to earn similar awards</td>
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All of these tools are required to create meaningful supplier recognition awards. Even so, each must be tempered by the industry type and size of business. We should note that many of these tools have been automated for use in-house and some are even offered by web-based services. An organization should avail itself to the most appropriate and cost effective tools.
Map and model supplier development and rewards: Traditional models of supplier management plus the influence by Lopez on the automotive industry have been one of punitive damages for non-performance. All behavioral models clearly state that this type of motivational strategy only works short-term. As a Supplier Support Manager, Susan Modeland, C.P.M., CPIM, at Supplier Support Manager at Goodrich Engine Components (GEC) notes one of my primary roles is to motivate long-term improvement in supplier operations and performance. Our strategies still include punitive measures but our primary attention is positive motivation by turning toward developing strategic alliances with our top performing suppliers, awarding good performance with additional/more profitable business and awards at supplier conferences.

The greatest long-term positive reinforcement we can provide is helping to identify additional ways to make the supplier even more successful. The GEC SVIP process takes basic lean tools and assists suppliers in learning and applying them to their business processes. Our strategic supplier rationalization process helps us to identify opportunities for our top performing suppliers to take on work currently completed by a very small volume supplier or a supplier with consistently poor performance. The top suppliers are also the only ones that are allowed to quote on new business.

The newest change in the Goodrich Engine Components supplier development strategy was to separate the supplier conference into a spring and a fall conference. The fall conference is for the top performing suppliers only. The spring conference is for the other suppliers that make up the balance of the 80% of the spend but who do not perform to Goodrich expectations. At the fall conference we hand out awards for 100% quality and 100% on-time delivery, one for customer service and one for supplier of the year. The much-coveted Supplier of the year award is presented and the suppliers that have won in past years are very disappointed when they do not win again. The spring conference is a two-day event of strategy sharing, training concerning new lean tools we have implemented and a lot of food and networking time. The spring conference focuses on problem solving and sharing of scorecards and our expectations for their improvement. This is a one-day event with a conservative lunch served. Suppliers leave the spring conference knowing that much is expected, but that success is possible and that progress to success will be recognized.

Mapping Supplier award processes and results: Although there are many ways to map the supplier award process, this section challenges the readers to develop a system relevant to their specific industry and operations. Even so, these maps should provide general guidance and motivation.

The first map depicted on the next page relates a typical array of supplier relationship models on the vertical axis an array of supplier management and motivations tools used to build and motivate suppliers superimposed across a time line for left to right. The diagonal line uses what we have called the ultimate supplier reward, increased business and involvement, as the sole recognition here. Actually, other recognitions such as plaques, increased involvement and collaboration could be included by an organization to fit its needs and the supplier base. Recognitions need to be scaled to the idea of long-term motivation programs.
Another way to map the award process is to consider the steps for program development. These typically are as shown here in the box. One key to this entire process is that the award ceremony and presentation process is attended by senior company officers and that at least the most prestigious company award should be presented by the CEO for maximum impact. Lastly, we must ensure that appropriate photo opportunities are created and utilized. Photos signed and presented by senior officers and managers become significant long-term motivators.

Vermeer Corporation makes special purpose equipment for the construction and agriculture industries. Their products are used in over 50 different countries worldwide. Our fundamental foundation to our customers, dealers, employees and suppliers revolves around the “4P philosophy” – Principles, People, Profit, and Products. Vermeer Corporation’s Purchasing strategy for the past few years has been to reduce the overall supply base, reward suppliers that provide overall value to the entire “value chain”, and to create a seamless solution for our manufacturing groups in terms of replenishment. Vermeer chooses to reward suppliers based on reviewing the “total cost of ownership”. As part of the new strategy, Vermeer has created two new positions of Supplier Development Specialist and Supply Chain Continuous Improvement Manager, who are focused on developing supplier metrics and expectations for the entire “value chain” along with providing feedback and resources devoted to improving processes and procedures at our suppliers’ locations. The use of a supplier recognition
program, although in its infancy, includes training, certification for suppliers and even the use of LEAN consultants. Program objectives are focused on increased quality, better cost control, increased assistance, and achieving goals as measured by new and more stringent metrics along with additional service. Additionally, a part of our supplier recognition is our annual supplier meeting which focuses on creating visibility for our top tier suppliers with our Executive Management team along with providing valuable insight into the next year’s business plans. The top tier suppliers are those who have truly supported the Vermeer philosophy. We also have provided a “Peer” level presentation that focuses on what our suppliers have accomplished throughout the year to improve their business. This presentation focuses specifically on “Lean Manufacturing” efforts.

In keeping with its business philosophy to grow, Vermeer firmly believes that the ultimate recognition should tie to growth of business for the selected suppliers. Hence, Vermeer concentrates the awards on growth of existing business as well as the opportunity to participate in new or additional products and services. The Vermeer initiative, like the other programs mentioned, depends upon and requires participation and support from senior supplier company officers.

Conclusions: First, we believe that properly developed and led supplier recognition programs can and will make major contributions to the organization, its suppliers and most of all to its customers and stakeholders. The most successful programs all rest on similar philosophies that include four things; 1) carefully developed and published objectives, processes and policies; 2) selection and support to key suppliers; 3) involvement and support by senior officers and 4) meaningful recognition to successful suppliers to include opportunities for the growth of their business. Second, we believe that if you are going to keep and utilize a supplier, there should be a motivation plan that reaches them. Third, we are convinced that future success depends more on supply chains than individual suppliers. Hence, the supplier recognition program should support building better and more competitive supply chains.

References:
2. By Staff, “Supplier awards programs range in age, scope and priority,” Purchasing, 11/15/2007 © 2008, Reed Business Information, a division of Reed Elsevier Inc