

HOW TO BETTER MANAGE YOUR SUPPLIERS

TIPS FOR BETTER MANAGEMENT OF SUPPLIERS

One of the keys to business success is developing and sustaining positive and productive relationships with customers, employees and suppliers. A partnership with key suppliers may translate into more success for your business, as well as help you out in times of need.

Here are some tips on cultivating good relationships with your suppliers:

1. Understand your supply chain

It is crucial to have a sound understanding of the cost and value of the entire supply chain for your business. An understanding of the costs involved (e.g. raw materials) and value provided by each supplier in the chain, gives you the knowledge to effectively evaluate a supplier and determine if they are right for your business.

For example, if your customer values innovative products then your product or services will need to be cutting edge. A supplier who is able to produce what you need in the shortest time frame will create value for you if speed to market is important for you. Using a supplier who is able to produce the same thing at a cheaper price but with a longer lead time may hurt your value delivery to customers in this situation.

Alternatively, you may have a product or service segment that competes on cost. In this case you will want to know which supplier is able to produce what you need efficiently and at a low-cost.

You should determine which supplier is best for your business based on what your customers need/expect. If your customers expect fast delivery or turn-around, then pick a supplier that can deliver fast albeit at a slight premium. On the hand, if your customers are price sensitive and time is not an issue, you may want to select a supplier that takes longer to deliver but is cheaper.

It is important to consider other factors in your supply chain such as the quality of the product or services being delivered and the resilience of you suppliers to unexpected shocks (See CPA Australia's guide - [Supply Chain Resilience: Tips for building flexible and resilient supply chains](#)).

2. Build relationships with a targeted group of supplier partners

Focusing on a select group of supplier partners will make it easier to build lasting and meaningful relationships. This allows you to better monitor supplier performance, detect potential problems early as well as rely on these partners to assist you deal with challenges. However, make sure you don't become over-reliant on a small group of suppliers. Prudent businesses identify alternate suppliers, test them and maintain a relationship with them.

3. Create a set of criteria to identify strategic supplier partners

Depending on your business strategy, consider suppliers that:

- have additional capacity (or redundancy) to meet surges in orders
- diversity of their own sources of supply

- have the capacity to supply high volumes of product or service to you
- are critical to the quality of your finished product
- may not sell to other businesses in your industry.

You may also like to consider suppliers whose values align with the values of your business (for example ethical or sustainable suppliers).

Use these to categorise your key strategic suppliers (tier 1) and prioritise building those relationships.

4. It is a two-way relationship

Seek mutual benefit with your key suppliers. Don't just look to your suppliers to lower costs (for example), instead look for what you can do with your suppliers to achieve value for all parties. The key here is to ensure everyone benefits from the relationship.

Ensure you treat your suppliers fairly and respectfully. Pay your invoices on time, return their calls or emails and treat them the way you would like to be treated.

5. Start every relationship by aligning your suppliers to your goals and values

Involve your key suppliers in your planning process so that they are clear on your goals and values. This will help them better understand how they can support you in achieving results. Collaborate on your efforts to pursue new opportunities and innovation, as well as look to share market risks and growth outcomes. An important shared goal is continuous improvement - that is, look to work with your suppliers to improve your products, services and processes.

6. Engage in scenario planning with your suppliers

Work with your suppliers to explore scenarios that may impact your business either positively or negatively. For example, what the plausible best-case opportunities are (i.e. relaxation of product compliance rules, fall in price or sudden increase in consumer demand); as well as worst-case scenarios (e.g. movement restrictions, shortage of raw materials, industrial disputes in your supply chain, unexpected fall in demand). Agree on strategies and a course of action that helps to either exploit opportunities or minimise risk. Look for solutions that result in the best outcome for both parties from those scenarios.

This follows on from working in partnership with your suppliers to take on opportunities as well as deal with adverse scenarios swiftly while keeping each other's trust. Positive and productive supplier relationships can lead to new opportunities for growth and innovation.

7. Establish your needs and requirements, and communicate them clearly

Understand and articulate what it is you need from each of your suppliers - e.g. quality, price, support or delivery times, or a combination of those factors.

Plan ahead where possible giving your suppliers a reasonable lead time for orders. Ask them about any upcoming sales or specials you can take advantage of, or bulk discounts that may apply if you order more.

Ensure suppliers understand your quality expectations and ask them to seek your approval for any substitutions in products or services.

Be transparent in your dealings and explain your requirements clearly. Transparency in each other's operations helps build trust and understanding in the relationship.

8. Treat your suppliers fairly

Clearly establish and agree upon both party's expectations and any relevant contractual terms to reduce conflict or disagreement.

Use measurable goals and achievable timeframes. Detail your processes and commitments with your supplier so you are both clear on expectations. For example, if there is a mistake in an order, agree on a reasonable time for the supplier to rectify the order. Or if a supplier provides a service - consider service level agreements to help manage expectations on both sides and resolve issues.

Use a written contract to set out the agreed upon terms (e.g. payment terms, delivery terms, etc.) and responsibilities; draw it out plainly and stick to them. Ensure that both parties are clear on the consequences (such as penalties) for adverse events e.g. delayed shipment or faulty products, and similarly, be clear on incentives when extra value is created.

The aim of a contract is to encourage equal commitment and participation from both parties. However, communication is critical - many issues can be resolved by a phone call or discussion before escalating. It is important to raise and address issues early to avoid negative outcomes.

9. Share information in a timely manner

Maintain regular contact with your suppliers to keep on top of issues and share critical information such as changes in order volumes or timing, production delays, price increases etc. to mitigate negative impacts on the relationship.

Remember to take into consideration security and confidentiality, when sharing information.

10. Jointly plan for emergencies or contingencies

Agree up-front on how emergencies are to be handled, so that you can react effectively and quickly to any supply chain issues or shocks.

Consider lessons learned after you experience an emergency or significant shock; this will help you establish plans to minimise the impact or avoid future occurrences. Similarly, plan and practice for unavoidable events that stress the supply chain such as natural disasters, global pandemics, etc. Joint planning allows disruptive events to be managed smoothly.

11. Make every interaction with your supplier meaningful

It is important to practice and encourage honesty with your supplier. When critical exceptions to normal operations occur, the supplier should be encouraged to immediately notify you without penalty. For example, in the regular meetings you have with your suppliers, always have on the agenda areas for improvement (for both you and the supplier) as well as a discussion on how the relationship can be improved.

12. Develop your staff to manage suppliers effectively

Effective supplier relationship management requires a range of skills - influencing, leadership and change management. Ensure you and relevant personnel are trained in these skills as part of your supplier relationship management strategy. The entire organisation must be clear on the strategic aims of partnering with a supplier and support it.

Effective supplier relationship management should position you as a "preferred customer" with your suppliers (and their competitors). This may translate to benefits such as priority or preferential treatment. As with any relationship, emphasis open and honest communication, transparency, maintaining trust and fostering mutual support in your supplier relationship management strategy.