

# Using Supplier Partnerships for Business Enhancement



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# Introduction

Outsourcing resources is often required to bring down external costs in order to keep up with the organizational budget. Most of the time it is assumed that the best way to achieve cost savings is to minimize the purchase prices for everything a business uses whether it's a consulting solution or a box of pencils. Based on this theory, issues such as reverse auctions that are over-subscribed, RFPs and loss of business are raised, forcing businesses to reduce prices by a substantial percentage.

Eventually, these issues affect relationships between business suppliers and buyers and a value-creating business model is hard to achieve. However, if the focus of savings is shifted instead to the value-creation elements of the supply chain, companies can save a lot more than what they actually do by undertaking actions that lead to the demise of value instead. The fact is, a partnership between suppliers and customers can bring much more value to both than a simple transaction.

The attention given to each supplier might be different across the supply chain, depending on the importance of the purchase under discussion. The interaction with a company offering business solutions is bound to be way more complex than that with a partner providing paper clips. Even then, a relationship based on partnership is always more beneficial than simple vendor transactions.

An effective partnership model can only be established and maintained when it is imbedded across the entire supply chain management process that starts with supplier identification and ends at vendor off-boarding.

### Key Touch Points

Super Selection	Onboarding	Business As Usual	Off-Boarding
<ul style="list-style-type: none"> <li>▶ Business Transparency</li> <li>▶ Profit Models</li> <li>▶ Cultural and Financial Fit</li> <li>▶ Site Visit</li> <li>▶ Continuity</li> </ul>	<ul style="list-style-type: none"> <li>▶ Vision and Mission</li> <li>▶ Expectations, Rewards, and Penalties</li> <li>▶ Logistics</li> <li>▶ Introductions</li> </ul>	<ul style="list-style-type: none"> <li>▶ SRM Model</li> <li>▶ Regular partnership Reviews</li> <li>▶ Mutual Accountability</li> </ul>	<ul style="list-style-type: none"> <li>▶ Honest Dialogue</li> <li>▶ Courtesy and Professionalism</li> <li>▶ Appropriate Transparency</li> </ul>

## The Value-Creation Process of a Partnership Begins at the Start

The foundation of a business partnership depends on how the needs are established and the procedure of competitive bidding that follows. In order to create an effective partnership, five key principals should be followed during the bidding process.

## Make Your Business Model Completely Transparent for the Bidding Procedure

If you want your partner to provide you with a customized solution that can fit all your business needs, it is essential that you share as much information as possible with these potential partners. Consider the example of an ATM sales and service company trying to reduce their real estate costs by moving to the use of third-party field parts management. Six different firms were asked to provide solutions initially and in the end, the cost estimates were reduced by more than 30% of the initial budget estimates. Surprisingly, these budget savings were not attributed to the typical savings but the open sharing of operational data instead.

# Learn About the Business Model of Supplier

If companies invest some time in the front-end of the bidding process, they can better learn about the key levers that can be managed for cost reduction and customized service delivery to their customers. A customer with fluctuating volume demand will not be able to form a long-term partnership with a supplier having a fixed cost structure due to the lack of alignment in goals. While a supplier is being investigated, companies should also learn about their profit models and see if they are in alignment with the internal capabilities of the company.

A helpful example is of a telecommunication company that was going through a supplier selection exercise, trying to evaluate potential partners who can manage their contact center operations. The core competency of the company itself was the use of extensive transformational change capabilities and they were looking for a partner who can enhance their core competency by improving their call center service. One of the many models that were presented could have led to substantial savings since it was offering fixed annual takedown of costs, much more than the proposals of other suppliers, but was turned down due to the lack of visibility regarding how these cost reductions would be generated.

## Assess the Financial and Cultural Fit of Supplier in Relation to the Importance of the Item Being Purchased

The evaluation criteria for a partner depends on how well they need to be integrated into a company's supply chain and the impact it can have on the operational delivery model. If the supplier is critical to the operations of a business, their compatibility should be checked early on during the bidding process. Both the company and the supplier can prevent getting into an unhealthy partnership by matching the proposal against the actual operational relationship required by identifying misaligned areas.

On the other hand, identification of complimentary elements can help in the planning process of the company, helping them make decisions regarding their capital investment and staffing. There is a classic business rule implying that a company and supplier which cannot partner during a bidding process are unlikely to create an effective partnership at any point after that.

## Visit the Site Where the Work Will Be Done

The suppliers bidding for a service should always ask the company to visit their existing operation and even if they don't, the company itself should make this visit a priority before a contract is finalized. This way, companies can better analyze the capabilities of suppliers in terms of technology and processes and can get a clear idea of complexities that might occur in the future. In some cases, this visit might be prevented due to confidentiality issues.

Consider the example of a telecommunication equipment provider that was looking to select a partner for repair services and reverse logistics. Four providers made it through the bidding process to the final level based on their documents and proposals. The company then paid a visit to all four facilities and found that there was a lot of difference between the operations of the top three vendors and the last lowest cost vendor, who was then eliminated. If the company had selected this vendor entirely on the basis of cost without visiting the facility once, it would have ended up making up a costly mistake by selecting the wrong vendor.

## The Selection Process Should be in Continuity

The bidding process is only one initial step among the entire supplier relationship management procedure and the interaction with the winning supplier during and after the negotiations are closed should be based on long-term mutual benefits. The initial sourcing decision and the tone of interaction established during the sourcing process are significant to the overall supplier relationship model. There are key principals that should be followed during the sourcing process including:

# Identification of the Role of Supplier in a Business Model

Businesses need to communicate clearly to the vendor the role they will be playing in the supply chain model. If the commodity the vendor is supplying is price-sensitive, the negotiations initially should be focused on current prices and possible reductions in future prices. Similarly, a supplier that will be critical to a company's product development procedure needs to lean towards process flexibility and innovation.

## Include the Right People in the Negotiations

A strategic partnership between a supplier and a sourcing organization that is created without any involvement of business owners can lead to misalignments in the operating model. Therefore, right people from both companies should be included in the negotiation and selection process when a supplier partnership is being created.

## Discuss All Aspects during the Selection Process

During the negotiations that take place at the time of selection, the suppliers and customers should communicate with each other in a direct and frank manner even if there are uncomfortable issues to sort out. The earlier these issues are dealt with, the better will be the resulting partnership. A direct discussion will allow both the companies to see how the other perform in stressful situations.

# Treat Your Suppliers like Your Employees

When you hire employees, you don't only add them to your payroll system, instead you set them up as assets to your organization. Same is the case with supplier partners and you don't just need to set them up in the payable and order system. You should provide these suppliers with everything that your employees have including access to information, clarity on their performance evaluation system, valuing their intake on a company's mission and vision, and outlining a clear system of payments. You have to make them feel like they are a part of the family instead of being the outside suppliers.

## Stay Consistent

Consistent and continuous interactions between a company and a supplier are of extreme importance. If your suppliers are not sure about your reaction to a certain situation, they can feel like they are at a disadvantage. No matter how well the expectations are set forth during the initial negotiations, these interactions are still more significant than anything on paper. Most of the time, customers think staying out of contact would give them more leverage but it actually ends up being the other way around. Excellent consistency in communication can build trust, increase transparency and reduce response time to inquiries.

# Create an Accountability System

If you need your suppliers to be accountable, you will have to provide them with an accountability model that they can mirror. Not only do you need to enforce accountability from the supplier side but should also follow the same accountability model yourself when dealing with suppliers. If you keep changing order quantities beyond the agreed term and then hold the supplier responsible for delivery delays, a disparity is created between your commitments and demands that will impact the integrity of a business partnership. Therefore, create a standard level of performance for both parties during the contacting process and stick to it for managing accountability of suppliers.

## Don't End Matters on a Bad Note

A common mistake made by companies is treating their suppliers in a bad way when a partnership comes to an end. This will only create a negative impact on your business practices, effecting your reputation. This can affect any supplier relationships in the future since a lot of companies lose other suppliers important to their business on the basis of bad reputation in the market about the poor treatment of suppliers.

Therefore, even when suppliers are on their way out, you should always let them go on a positive note with a clear understanding that both of you are interested in maximizing profits and your vision does not align anymore. Companies that let their suppliers exit with grace successfully build up a positive reputation in the market that can encourage other suppliers to get into partnership with them.

This also give employees and customers of the company a good impression ensuring that they will also be treated with the same level of professional courtesy when they decide to part ways with the company in the future.



# Conclusion

All these strategies can help businesses create a much more successful partnership with their suppliers that can be cost-effective, long-lasting and value-adding to the entire supply chain process of a company. In the end, these partnerships are going to be way more beneficial for companies in terms of value compared to one-time transactions.

## About Cogent Data Solutions

Known as one of the leading offshore service providers, CDS provides multiple data warehousing and business intelligence services to companies looking to outsource their work offshore. CDS believes in setting measurable milestones and goals to ensure that the client is informed every step of the process. It guarantees its clients full satisfaction for several services related to IT.

From big data management to big data migration and business intelligence, CDS has years of experience in the industry and knows how to deliver comprehensive results. Its professional services include analysis, strategic planning, design, development, implementation and support and training. With some of the most talented consultants in the industry, CDS knows how to combine business and technology to its full potential so that its clients can reap the benefits. You can visit [www.cogentdatasolutions.com](http://www.cogentdatasolutions.com) for more information.



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