Competitive Wars in Supplier Management

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If you are responsible for managing the supply base within your company, in order to be very successful you must not only be a procurement expert and an operations whiz, but also an analytical data junkie. In the face of ever-shortening product life cycles, increased cost pressures and lean supply chains, you are continually faced with potential supply disruptions due to issues such as an unexpected change in supplier lead times, drop in component quality, slowdown in shipping lanes or financial problems at suppliers.

These supply disruptions are expensive. For example, 50 percent of respondents to a recent study by Gartner Research who had experienced a supply chain disruption within the past year experienced a loss of more than $1 million because of that disruption. Sometimes these disruptions appear suddenly because the problems are at the lower tier suppliers, hidden from plain view. Businesses are always looking for ways to predict and address these disruptions before they hit them.

Traditional supply chain analytics and supplier scorecards can’t solve the problem completely — they only report what you can see in your internal operational data, and often after-the-fact. They don’t provide you with any ability to incorporate external information and benchmarks to assess and predict potential supply disruption risk before it hits you. Emerging technologies are now coming to market that incorporate external information into your analytics to give you a 360 degree view into your suppliers so you are better able to predict such risks and address them in a timely manner.

These emerging technologies collect key supplier performance information from your enterprise system, as well as from the systems of a number of your peers in the industry, and aggregate it. They then combine this information with publicly available credit, demographic, and other financial information, and the latest industry news about the supplier to give you a 360 degree view into your supplier — an operational, financial, and business view.

Analytics and insights on top of this information enable you to:

1. Gain visibility into lower tiers of your supply chain, so you can understand their performance trends and use this information to further improve performance. This is a significant advancement, because not only are you able to track your own suppliers, but you are also able to gain significant visibility into the performance of your suppliers’ suppliers, and even further

down the chain. A large majority of the supply chain risk originates from lower tier suppliers and catches manufacturers by surprise because they lack clear visibility into the lower tier of their supply chain. For example, according to a recent automotive industry report, the financial condition of the majority of auto market suppliers continues to deteriorate, resulting from a historically weak demand and high dependence on a shrinking number of automakers. According to the Original Equipment Suppliers Association, 12 percent of the auto industry suppliers do not have sufficient working capital to support a 10 to 25 percent expansion in production, even as automakers expand production and need their suppliers to step up. Imagine the benefit of knowing early that a specific lower tier supplier is beginning to experience financial issues or lacks sufficient working capital to support your growth, or that has operations in countries that are likely to face shipping lane disruptions. Such early knowledge can allow you to take proactive steps to ensure delivery reliability — a huge source of competitive advantage.

2. Benchmark your supplier's performance continuously against your peer group. The analytics provide a dashboard that allows you to check how a supplier performs against relevant KPIs, and how that relates to the performance of that same supplier for other customers in the network. Imagine knowing that your quality metrics from a specific supplier are two points below your peers and your on-time delivery metrics are three points below your peers, while your landed cost is on par with your peers. Such insight can enable you to prioritize where to focus your improvement efforts with that supplier. In 2008, research by the Procurement Leaders Network revealed that as many as 95 percent of procurement executives would welcome an independent benchmarking tool. This illustrates not only the importance of benchmarking as a means of measuring and improving results, but also the need for benchmark standardization so comparisons to benchmarks are easier and provide context for comparison.
3. Deliver qualified predictions about developments based on the trends in KPI scores in the aggregated information. For example, the analytics can tell you that the delivery time of a supplier will increase by at least 7 days in the next three months (supported by change in trends both internally and at other manufacturers) due to specific factors such as the closure of a production facility. Such valuable insights give you advanced notice to either identify another component source and/or to proactively reset expectations with customers depending on your customer relationship strategy.
4. Assess future risk within your supply base and proactively take corrective actions. The risk may be due to external factors such as plant closings or financial issues with one of their key suppliers, or clogging of a supply line. As organizations seek to get a better handle on their overall risk as a result of pressure from activist shareholders, board members, and other stakeholders, an ability to assess risk and proactively make course corrections is an important operational capability.

These emerging technologies will also provide you news alerts about suppliers you want to track. For example, it will tell you if your supplier was recently sued for not paying their bills, or if one of their production facilities was shut down as caused by a natural disaster, etc. Since all such information is in context of your business relationship with your supplier — your dollar volume of spending with them, potential at-risk revenue that could result from a disruption, sole sourcing vs. multi-sourcing relationship etc. — the alerts can be categorized red, yellow, or green depending on the seriousness of the situation for you.

With a 360 degree view into your supplier's operational, financial, and business data in context of your relationship with them, risk management is the ultimate frontier that these analytics address. Analytics allow users to create heat maps where they can start with an aggregate view and where suppliers may be grouped by industry or spend. The heat map identifies red/yellow/green areas for various metrics — red being where the risk of a predicted metric value is higher than their threshold (based on your risk appetite). The user can then drill down to metrics and information about an individual supplier to identify specific risk factors and their cause. Such an approach to supplier risk management is based on a broad set of information about the suppliers, not just the operational data in today's supplier scorecards.

This technology provides you better visibility into the lower tiers of your supply chain, continuously benchmarking your suppliers (and their suppliers), identifying areas of improvement, assessing risk, and proactively addressing issues as much as possible to reduce future disruptions. In short, it provides you with the tools so you can be the superhero you are expected to be as a supply chain manager.

What's your take? Please feel free to comment below!