

**Supplier Relations**

**Text** James Small  
**Photos** Dreamstime

**Key Points**

- > Without a healthy extended supply chain, all businesses run the risk of poor performance.
- > Firms need to form partnerships further back along the supply chain.
- > Wider communication is essential if suppliers are to respond to change.



**Rebuilding relations for growth**

*For many organisations, the understandable natural reaction to the economic downturn was to batter down the hatches and reduce costs wherever possible. However, as demand returns, this is placing significant strain on their extended supply chains, writes James Small.*

**P**anic-induced myopia during the recession has left many a company-supplier relationship in tatters. In survival mode, many companies took the view "our horizon is now, and we'll worry about tomorrow when it comes". Ignoring agreements and abusing relationships, some abandoned suppliers to their own fate.

Now tomorrow is here - and customers are demanding more (and more quickly) - these companies have no protection from inventory buffers and are struggling to get the response they need from a disgruntled supply chain. The actions people took mean lots of supply chains are now dry; they're not lean, but drained. No matter how efficient your own company, without a healthy extended supply chain, you're going to have difficulties. There will always be unplanned events, which without supplier co-operation, will

prevent you from being truly 'business-effective'. And it opens the window to competition.

Often, it's not first-tier suppliers, but second- or third-tier suppliers, which are causing the issues. But companies are failing to look beyond the first point of contact and recognise the importance of the extended supply chain. Companies are trying to 'beat up' their first-tier suppliers in the hope that this will get passed on, rather than tackling the true cause of the problem.

Communication is key to resolving the supply chain issues many organisations are now facing.

Firms need to form partnerships further back along the supply chain. They need to talk to and convene with people they would never have previously considered meeting. That is not an easy task as the vast majority of companies have never really had true visibility of their extended supply

chain, because when things were relatively stable, there wasn't any real need for it.

Many companies operate on the assumption that history is reflected in their future, which during times of stability, will work to a degree. Yet, the recession has changed all this. It's created an atypical situation, where history has almost been wiped out - the future no longer represents the past and vice versa. Without better communication and better information flow between the links in the supply chain, it will take a very long time for history to again become a good basis of information for the future.

Treasury Wine Estates, part of the Foster's group until 10th May 2011, and now one of the world's largest publicly owned wine companies, experienced the importance of communication in the supply chain, having incurred write-downs on surplus wine in the past worth hundreds of millions of dollars. "We work to long lead times and often start to source against the demand profile a long way out," says Stephen Anders, director of global integrated business planning. "It can be hard to manage demand changes even if we know about them early, but if there's any lag in communication to our supply side, we can easily find we're sourcing for an out-of-date demand profile."

Improving communication and developing relationships, then, is fundamental to the restoration of a healthy supply chain. But before you can begin to do this, you need to gain control of your own business. You need to be able to provide credible, reliable information before you can establish partnerships. If your information keeps changing, no-one will believe it, there will be no trust and you'll have no basis for building relationships. Trust can only be generated when people deliver to expectations and to promise. The greater the collaboration through the numbers, the better the relationships and, hence, plans.

In the case of Treasury Wine Estates, the implementation of integrated business planning (IBP) has delivered reliability in the numbers, and by integrating its business processes, IBP has given the management team an accurate view of its organisation as a whole. Only nine months into the programme, the wine producer experienced real financial benefits. "We were able to spot a supply shortfall in a niche product which, if not acted upon, could have been costly," says Anders. "Before IBP, this may not have been identified at all, and certainly not as quickly. As a result, we

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**Supplier Relations**



were able to plug the shortfall with 20,000 cases, with a combined gross margin of over \$500,000.

Flexibility is a requirement of a supply chain, depending on the way the business and its supply chain intend to meet customer service levels, and also on the cost-to-serve. Supply chains should be optimised to deliver customer and cost expectations for service etc, and products should be segmented into supply chain bundles to meet that approach. The attention to detail needs to apply to any business process in pursuit of excellence in performance. More and more, the "runners" in a supply chain can be left to automated processes, as long as the organisation has the maturity of process to deal with this — as opposed to just seeing this as automation of current processes. This means people in the organisation can focus on the products where there is higher variability and uncertainty. This is a key feature of the IBP process.

So while they couldn't sidestep the recession, those companies with good processes and in control of planning before the downturn could continue to drive improvement through the difficult times, and they are now in a better position to meet the resurgence of demand. But, as we've

seen, having control over your own business in this day and age, is only the first step to success; irrespective of the accuracy of the information you provide, wider communication is essential if suppliers are to be geared up to respond to it.

A business needs suppliers to be in control of their own businesses, and simply telling them to get control of it just isn't good enough. You have to build a partnership and understand what suppliers need to improve. Just demanding 'more, more, more' isn't going to provide your supplier with the bandwidth to actually get in control and improve.

At Oliver Wight, we are seeing an increasing demand from businesses for us to work directly with their first-, second- and, in some cases, even their third-tier suppliers. So, as well as helping clients gain control over their own organisations, we can also help them to develop profitable relationships throughout the extended supply chain.

As recovery continues and demand increases, it is critical organisations optimise the efficiency of their entire supply chain if they are to keep the competition at bay.

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**Meeting the challenge**

The idea that companies can optimise their supply chains once — and for all circumstances and customers — is a fantasy. Recognising this, a few forward-looking companies are preparing in two ways. First, they are splintering their traditional monolithic supply chains into smaller and more flexible ones. While these new supply chains may rely on the same assets and network resources as the old, they use information very differently—helping companies to embrace complexity while better serving customers. Second, leading companies treat their supply chains as dynamic hedges against uncertainty by actively and regularly examining — even reconfiguring — their broader supply networks with an eye toward economic conditions five or 10 years ahead. In doing so, these companies are building diverse and more resilient portfolios of supply chain assets that will be better suited to thrive in a more uncertain world.

Source: McKinsey Quarterly



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