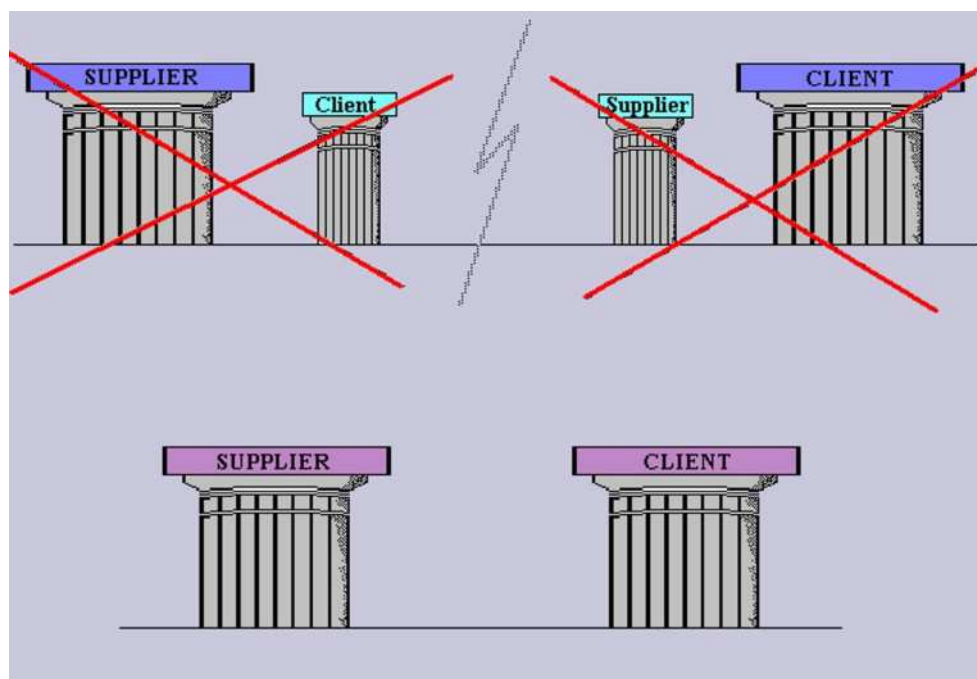




# CLIENT/SUPPLIER RELATIONSHIP: EVOLUTION OR REVOLUTION?



## **CLIENT/SUPPLIER RELATIONSHIP: EVOLUTION OR REVOLUTION?**

By Carlo Scodanibbio for: The Malta Independent  
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In our rapidly changing industrial environment, also relationships between client and supplier (or vendee and vendor, as they are often called today) are featuring a substantial evolution.

The signals of this evolution are not weak at all. More and more often one hears sentences like:

"....price is only a component of the total purchase cost...."

"....often best prices result in worst overall costs...."

"....the manufacturing process starts at suppliers' premises and ends at client's home...."

Many industries are instituting formal or informal programs of suppliers evaluation, rating, grading and classification. And many others are reducing substantially the number of their suppliers, sometimes with a dramatic "decimation". Something is definitely changing.

A simple interpretation of this phenomenon might conclude that major industrial and manufacturing groups, under increasing pressure from hot competitiveness, are just trying to score bits of cost savings nibbling and gnawing suppliers to the bone, to obtain out of them more quality, more flexibility and better prices.

A more comprehensive and realistic interpretation, however, goes beyond this "reductive" conception, and sees in these signals the features of a cultural revolution: industrial strategies are changing in a very precise direction, modifying radically all traditional factors of competitiveness, under the philosophy of the so called "New Performing Systems". And the Client/Supplier relationship is so deeply involved in this change, to the extent of representing a crucial starting point, rather than just an aspect of the strategy.

To illustrate the phenomenon, let's consider today's main competitive parameters of any industry. They are: Costs - Delivery/Service - Quality - Innovation, all under a basic dimension, which is Time. All of them affect competitiveness, and all of them, in a personalised "mix", constitute basic parameters of any serious industrial strategy.

A simple examination of suppliers' role is sufficient to conclude that suppliers are strategic co-protagonists, with their clients, in the final destiny, success or failure, of any business.

In fact, suppliers can play a determinant role in respect of the cost parameter: purchases (materials, products and services) can easily represent 50% or more of the total costs of many enterprises. And suppliers may, under certain circumstances, contribute drastically to keep costs under control thus ensuring the competitiveness of an enterprise in a turbulent economy. This is in line with the simple and "reductive" interpretation above. But suppliers can do much more than this.

With regard to the Delivery/Service parameter, today's clients want products (or services) at the rate, in the mix and with the timing they establish themselves and want. This compels any serious "client-driven" enterprise to respond with flexibility to client's expectations: to such an extent, that it may become impossible unless its suppliers respond with as much flexibility. And the time of warehouses full of finished products is rapidly expiring, therefore the overall productive process, which really starts at suppliers' premises, must become more and more flexible and "slender" (Lean Manufacturing). Suppliers' contribution to this target plays again an essential role.

The Quality issue is even more critical. Any product or service is made of "components", and unless the quality of such components is adequate, the quality of the finished product might suffer. In this context, suppliers really have the "lever" in their hands: they contribute to negatives (defects and weaknesses of the finished products), but they may contribute even more to positives (those "extras" in the quality field that may represent the difference between an acceptable product - or service - and an excellent one).

Same comments can be made for the Innovation parameter. Many enterprises promote innovation as their more competitive feature. But unless their suppliers participate significantly in the innovation process, with a "partnership" spirit oriented to the success of "common" business, the innovation process itself might result poor, incomplete, or even "looser".

Finally, putting the Time dimension under scrutiny, even more disturbing conclusions appear. Suppliers play again a very determinant role in respect of all significant times (besides the supply lead-time, which has always been under the careful control of buyers and procurement officers) of modern industry: e.g., the time to market (or development/engineering time for a new product or service); the start-up time, required to launch a new production (or put into operation a new service); the production-time (P-time) necessary to produce a product (or to render a service); the set-up time necessary to switch over from a productive mode into another; and even the information-time, so essential in today's industrial context.

Surely, if suppliers play such an important role, the overall approach to their global management may deserve a different degree of attention and become itself a strategic parameter for the modern enterprise. This is exactly what is taking place within many industrial concerns world-wide, by answering the simple questions: "if suppliers are so determinant in affecting all main competitive parameters, what global strategy can be developed in order to obtain global business competitiveness with their adequate involvement ?"

Several strategies have been developed and are being developed. A new term has been invented: **Comakership** ("Joint Manufacturing" - with "integrated" suppliers - at its first level; "Manufacturing Partnership" - with "Partner" suppliers - at its more evolved stage), to give disciplinary consistency to the phenomenon.

A new philosophy has been developed, on the so-called value-chain (".....business is made today, by being in the right sub-supplier/supplier/client "chain", with the right partner suppliers, in a common effort of succeeding together....."). Enterprises traditionally reluctant to give information to their suppliers are today adopting "open door" policies, communicating globally and on a two-ways basis with their suppliers in an effort to plan, study, learn, analyse feed-backs, and perform together. Co-engineering and co-design have become common practices. PPD - Process/Product Development "together" is a reality. Relationships Client/Supplier feature full trust, open orders and long-term time horizons. In many instances even the informatic network is common.

Certainly, these are signals of a cultural revolution in the Client/Supplier relationship, if one compares today's futuristic situation with the scenario of only 20 years ago: buyers were then busy obtaining best prices (the 3 offers rule!) on a single-order basis, generating high competitiveness between suppliers, exploiting them to the extent of considering suppliers "disposable" like paper handkerchiefs, searching continuously and systematically alternative sources of supply, in a process that had all but reciprocal trust and confidence. Well, in only 20 years, features are rather different: the buyer's role is highly de-centralised, the decision-making process is spread among a multi-functional management, and the old paternalistic approach has developed into a strategic process of establishment and dynamic maintenance of long-term relationships with few, reliable, well-known suppliers, integrated or to be thoroughly integrated into a business value-chain, with mutual satisfaction, joint responsibilities and joint rewards.

The basis and starting point of this global approach is represented by a deep knowledge of existing and potential suppliers. Vendor Evaluation and Rating has developed greatly in the course of last 20 years, moving from a simple examination of supplier's output, to a valuation of vendor's process (especially with regard to Quality Assurance matters), and finally to a global understanding and rating of supplier's structure, including his management system, his process capability, his employees professionalism, his strategies and his cultural values.

The interim result is a phenomenon well known as Grading of Suppliers, into convenient classes, each with different features and potential. The modern industry, the one aiming at "world-class" status, has a strong tendency to up-grade suppliers in a constant process of improvement, in order to bring them to iso-status: same level of professionalism, same level of business maturity, same level of technological capacity, and same level of orientation to client, with the aim of communicating on the same frequency and reaping jointly and maturely market's opportunities. This is done by transmitting know-how, competence and culture, in a real educational process that may include furnishing to suppliers consulting and training services.

The final result, at advanced levels of *comakership*, is astonishing. Many industries (even small in size) in USA, Japan, and Western Europe have created their own very personalised *comakership* strategy, and developed their own value-chain with incredible results. A discipline like Total Quality Management has now developed into GWQC: Group-Wide-Quality-Control, thus extending not only in supplier's direction but also (when applicable) in client's direction, homogenising the quality issue over several links of the value-chain. There are numerous operational examples of chain-QFD, or Quality Function Deployment discipline applied to all chain links (from client to 4th or 5th sub-supplier level), in order to transform effectively client's (or end user's) needs and expectations into a finished product/service, taking into considerations all components of process and product up to raw material level. And there are many examples of operational partnership (with cross-shareholding) along the various chain-links.

Can we call this evolution, or should we rather talk of revolution?

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He has co-operated, inter-alia, with the Cyprus Chamber of Commerce, the Cyprus Productivity Centre, the Malta Federation of Industry, the Mauritius Employers' Federation, the Romanian Paper Industry Association, the United Nations Industrial Development Organisation and the University of Cape Town.

His courses and seminars, conducted in English, Italian and French, have been attended by well over 20.000 Entrepreneurs, Managers, Supervisors and Workers. They feature a very high level of interaction, and are rich in simulations, exercising and real case studies. The approach is invariably "hands-on" and addressed to immediate, practical application.

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