

Status Symbol: What Does it Take to Be a Customer of Choice (CoC)?

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Abstract

Within the context of the current financial crisis, ensuring preferred relationships is more important than ever. Supply management needs to be “close” to their supplier, to enable a clear understanding on how the ups and downs of the global economy will be co-managed. Firms have begun to explore how access to credit will impact both suppliers and customers, and establish mechanisms for business continuity. Issues around clear communication of payment terms, investment in the business, capacity planning, and long-term planning is clearly difficult to achieve this in cases when suppliers buyers as the enemy!

Creating the Basis for Becoming a Customer of Choice

The authors of the book “Firms of Endearment” created a powerful vision of firms that are blazing a new business model for excellence. These firms have been able to effectively align with their key stakeholders in the enterprise, so that a) a two-way flow of value between both parties to the relationship exists, and b) the interests of both parties are aligned. The importance of establishing a status known as “Customer of Choice” with one’s key suppliers is critical within this framework.

How do firms identify where they stand in the eyes of suppliers? Further, what are the characteristics of a Customer of Choice? While the marketing literature often uses a “cost to serve” framework to define how suppliers view their customers, in reality, there are a multitude of factors that exist which shape these supply chain relationships. Further, firms are finding in an environment of heightened supply chain risks, supplier performance and reliability is more important than ever! Recent research has¹ found that as companies deploy their first, second, and third round of spend analysis and leveraging, category management, and supplier scorecards, they have seen significant improvements in cost and performance. Recent articles have also identified how firms can improve customer attraction through improving comfort levels, and expected value of customers in the eyes of suppliers. Consulting-speak around “supplier relationship management” (SRM) as the key to top-line growth fails to provide specific actions associated with this approach. While some refer to “Toyota-style supplier relationships”, the actual mechanisms and processes associated with building a strong

supplier relationship are unclear in a Western context, but are becoming increasingly critical given the constrained nature of many of today's supply markets.

In this discussion, we define the key attributes of firms who have achieved "Customer of Choice" status, which cover eight specific areas of behavior: Transaction Management, Ease of Doing Business, Communication, Process Improvement, New Product/Process Development, Scorecards, and Relationship Management, and Quality.

Next, we identify the mechanisms by which firms can not only assess their status, but identify strategies for improving the relationship via a new set of governance mechanisms and shared scorecards. Our analysis suggests that a fundamental shift in the supplier-facing organization structure is an imperative in developing a resolution to the current set of disparities and conflicts that exist in the current organizational model. We believe that a number of actions can be taken to remedy this situation and align WFM with its supply base to create a stronger bond.

Attributes of Preferred Customers

Suppliers are a critical component of the stakeholder community, yet there are multiple dimensions of performance that they consider when working with customers. These are next discussed.

1. Accounts Payable

Being paid in a reasonable amount of time is more important than ever in today's financial crisis. Suppliers should also be able to work through a well-structured Procure-to-Pay process, which avoids lengthy delays and enterprise systems that prolong on-time payments. Many companies in this space have payments terms that extend to up to 60 days at the behest of their financial teams, yet are losing a powerful intangible force, which is access to supplier capabilities in the process. Paying in 30 days or less is an important standard that should be considered, and even sooner in the case of distressed suppliers facing credit crunches. Supply managers should also continue to communicate with suppliers to ascertain that their cash flow is adequate to sustain current operations in the near-term, and be prepared where required to improve terms if necessary.

2. Ease of Doing Business

This category refers to a whole class of behaviors associated with the experience of becoming a new supplier to a company, as well as the ensuring, which often entail becoming qualified, entered into the financial system as a preferred supplier, as well as the qualification and insurance elements to become a supplier. Suppliers we interviewed in some cases were quick to note when they had a customer with whom they work with.

One point that often impacts relationships in this category is the point of interface. There may be a trend occurring in the disconnect between national and regional relationships with suppliers for major global or nationally based organizations. Our interviews reflect that different levels of business ease occur relative to national, regional, or site-level relationships.

3. Purchase Orders

This dimension of the buyer-supplier relationship assesses the extent to which the purchase order (PO) process proceeds smoothly, accurately, and in a timely fashion relative to other customers. Some of the major problems include how to handle fuel surcharges, differences in unit quantities on PO's, and the huge volume of vendor price change files that regional data integrity coordinators are faced with.

4. Communication

Suppliers are often keen for face-to-face communication and feedback from customers. Unfortunately, many category managers' availability for supplier communication is deemed inadequate by suppliers, although our interviews suggest that most of the communication that takes place in this area is through email, not through direct verbal discussion. Part of the issue here are the extreme demands placed on sourcing coordinators and category managers limit the amount of time they can work with suppliers on sharing information, discussing product opportunities, and on-going discussion of product sales strategies. This was a problem in virtually every single one of the category coordinators and buyers that we spoke with.

5. Quality

Suppliers are often unfamiliar with stringent quality requirements that may exceed their capabilities, or simply are shut down because the requirements are poorly communicated or not communicated at all! There is an opportunity here to improve communication on quality standards *earlier* in the relationship, instead of at the last minute.

6. Contract Terms on Pricing and Other Factors

There is a growing unease among the suppliers we spoke with that although initial discussions that occurred in pricing and contract negotiation were open, fact-based, and fair, that the follow-through on these agreements was not always well-executed (see section on Quoting and New Product Introduction). That is to say, initial discussions around the pricing and terms of the contract may be clear to both parties, many suppliers expressed a worrisome doubt of other stakeholders to accept these requirements. This is particularly challenging when a central category strategy is developed with a global category team, and the hand-off to business units is ineffectively communicated, resulting in lack of stakeholder engagement on the contractual commitments. Suppliers often terminate contracts with customers when business units engage in maverick buying, do not source minimally agreed-on volumes, and create major issues in contract non-compliance.

7. Customer Service

Major supply agreements should contain a customer service metric that assesses the extent to which the customer manages conflicts and resolves issues quickly and fairly. A single point of contact for discussing issues is an important element here that is of importance to suppliers in resolving an issue. The cost to serve a customer, relative to the revenue and benefits received, is also an important dimension of the Customer Service metric.

8. Quoting Process

The quoting process relates to the end-to-end contracting process, including quality requirements specified in the contract. In particular, the quoting process for rolling out products on a national or global basis is often poorly coordinated, as requirements are often

surprising and not well-communicated to the supplier community upfront. One supplier provided a clear example:

9. Supplier Scorecard Program

A supplier scorecard program is a formal system for measuring supplier performance, communicating that level of performance relative to expectations, and awarding superior performance to drive improvement in the supply base. A scorecard program is a foundational element for building effective supplier relationships, aligning expectations, driving performance, and awarding new business. This is an area where WFM could quickly build a platform for improving communications and feedback to suppliers in a formal manner. As shown in our interviews, a need to drive insights into performance through a formalized basis is important.

10. Forecast Accuracy

Suppliers often suffer when forecasts are unreliable. Most suppliers do not believe their customer forecasts, and often the expectation that the customer does NOT have a well-designed forecasting and category management process. Part of this stems from the lack of central coordination, and part is a result of the ability of sites and regions to coordinate to develop a single forecast across lines of business that is meaningful for a supplier serving these regions. Poor forecasts equate to poor planning on the part of suppliers, which is a circular process resulting in mis-aligned capacity management, product promotions, and demand management. The application of collaborative forecasting has been documented for many years, and can yield significant results in terms of improved coordination and alignment of joint goals and objectives that can benefit both parties.

11. New Product Introduction / Resets

The ability to on-board suppliers that have been successful in specific locales, and rolling them onto a national program, is a process that companies need to do a better job of. Building a supplier's business and growing the business in a partnership is at the root of being a customer of choice, especially for suppliers that are aligned in terms of culture, sustainability, and values. Our research reveals that there is a lot of room for improvement in the new product/service introduction/re-set process in its current form. One supplier we spoke with articulated this well

One of the downsides often cited with growing a business is a need to establish a more centralized, bureaucratic, and structured set of policies and decision-making processes. No company is immune to this requirement, in order to ensure that the business can grow profitably, and also capture economic value associated with its size required to make the business competitive relative to the market. One of the fundamental questions that begs to be answered in this context is how to maintain the relationship that may occur in the growth of an organization with key suppliers, and maintain these relationships as the need to centralize sourcing decisions emerges.
