

Supplier relationship management and your purchasing portfolio

Firms have a range of items in their overall purchasing portfolio with different characteristics. These characteristics can include the impact of the item on the quality of the end-product, the number of available suppliers to supply the item and the likelihood of disruptions to supply of the item.

Each of these items is likely to require a specific supplier relationship management strategy to achieve the required cost and performance needs. Firms often employ a purchasing portfolio technique to allow them to select an appropriate supplier relationship management strategy for each purchased item.

You can also use this framework to analyse how supplier relationship management can deal with the impact of Brexit on your purchasing portfolio. Let's take you through the steps involved in applying this framework.

Step 1: How to assess the importance of the purchased item

The total cost of the item in relation to your overall purchasing spend and its impact on end-product quality and functionality are indicators of purchased item importance. For example, the cost of the item might increase significantly as a result of Brexit.

Below are some of the questions that you should answer in order to assess the importance of the purchased item.

- How significant are the costs of purchasing the item in relation to other purchases with your overall purchasing spend? For example, if you are spending over 15% of your overall annual purchasing spend on this item, it is likely to be of critical importance.
- How significant is the impact of this purchased item on the overall quality and functionality of your end-product? For example, in the case of a car, a poor quality engine is likely to have a significant impact on the overall quality and functionality of the car.
- What is the percentage of the total cost of the purchased item in your final product? For example, where a purchased item is over 20% of the overall purchasing spend for the end-product, it is likely to be critical.

Answering these questions will allow you to assess whether a purchased item has low or high importance. The importance of a purchased item is a sound indicator of the attention that you should give to managing the relationship with the supplier.

Get Supply Chain ready for Brexit



Step 2: How to assess the level of supply market risk

Supply market risk factors create difficulties for you when purchasing the item in the supply market. Brexit is likely to have an impact on the level of supply market risk. Below are a some of the questions that you should consider around supply market risk for a purchased item:

- How likely is it that this purchased item will be subject to delivery delays as a result of Brexit?
- How likely is it that this purchased item will be subject to disruptions in supply as a result of Brexit?
- How likely is it that this purchased item will be subject to forecasting problems as a result of Brexit?
- How likely is it that this purchased item will be subject to inventory and warehousing problems as a result of Brexit?
- How likely is it that this purchased item will be subject to procurement problems as a result of Brexit?

Answering these questions will allow you to assess whether a purchased item has low or high level of supply market risk.

Step 3: Plotting your purchased items onto the matrix

Assessing the level of *purchased item importance* and *supply market risk* will allow you to plot each item onto the two-dimensional matrix as shown in Figure 1.

As you can see there are different purchase categories on the matrix, and Brexit is likely to have different implications for each category. There are a number of supplier relationship management strategies that you can adopt for each item in the context of Brexit, and these will now be outlined.

Get Supply Chain ready for Brexit

Purchased item importance	High	<p>Leverage items</p> <p><u>Supplier relationship management implications of Brexit:</u></p> <p>Presence of various suppliers should make switching suppliers straightforward Monitor supply market for any future Brexit-related risks</p>	<p>Strategic items</p> <p><u>Supplier relationship management implications of Brexit:</u></p> <p>Significant management attention required for these items Develop strong, collaborative relationships to reduce supply market risk Beware of resource involved</p>
	Low	<p>Routine items</p> <p><u>Supplier relationship management implications of Brexit:</u></p> <p>Presence of suppliers and standard needs make switching straightforward Monitor supply market for any future Brexit-related risks</p>	<p>Bottleneck items</p> <p><u>Supplier relationship management implications of Brexit:</u></p> <p>Significant management attention required for these items Focus on reducing supply market risk Potential options include collaborative supplier relationships, consigned stock or product redesign.</p>
		Low	High
		Supply market risk	

Figure 1. Brexit supplier relationship implications for your purchasing portfolio

How to manage the supplier relationship for leverage items in a Brexit context

These are items that can be sourced from various suppliers and are of significant value in the overall price of your end-product price.

Although these items have high importance, the level of Brexit-related risk in the supply market is low. In this instance, if you have a number of suppliers available you should ensure that you can switch to any of these suppliers easily to ensure supply is not disrupted.

Where possible, you should use a short-term contract to make switching easier to another supplier.

You are likely to be in a strong position with leverage items because there are a number of suppliers available both locally and outside the local supply market that you can turn to. Therefore, Brexit may not have a significant impact on the level of risk in the supply market.

Get Supply Chain ready for Brexit

How to manage the supplier relationship for strategic items in a Brexit context

Strategic items have a high level of importance due to their considerable value in your end product price, and the limited number of suppliers in the supply market for the item. Therefore, careful attention should be given to managing these items in the context of Brexit.

Ideally, you should build close collaborative relationships with suppliers of strategic items as they can be an important way of reducing the risks associated with Brexit. For example, you can deal with Brexit-related problems jointly on a collaborative basis, which limits the need to re-negotiate the written contract or exit the contract.

The building of trust and frequent information sharing between the you and your supplier in areas such as delivery problems and potential price changes can help you better anticipate future Brexit-related problems.

Some of the features of collaborative relationships include:

- Longer-term focus through, for example a longer contract period.
- Joint problem-solving in areas such as cost reduction, design and process improvement.
- Ongoing two-way information sharing on service levels, inventory levels and forecasts.
- Benefits and risk sharing.
- High level of dependency can increase supplier loyalty.

However, you should be aware that collaborative relationships are resource-intensive, as they involve close, frequent working with between you and the supplier. They are often only feasible when the you already have relationships with these suppliers.

How to manage the supplier relationship for routine items in a Brexit context

Routine items have a small financial value and can be readily sourced from a wide number of suppliers in the supply market. These items can be sourced from the most competitive supplier in terms of price, delivery and quality.

These should be low risk items in a Brexit context, and managed through an adversarial arrangement. You have the option of easily switching from one supplier to another as a result of relatively standard requirements, and the presence of a high number of suppliers in the supply market.

Some of the features of these arrangements include:

- Standard purchasing requirements, and unlikely to change during the contract.
- High number of suppliers available to supply the item and straightforward to switch suppliers.
- Short-term, and price-dominated contracts.

Get Supply Chain ready for Brexit

- Less resource intensive than collaborative relationships.

You should also consider strategies that reduce the level of management attention and resource that has to be given to managing the relationship with suppliers of these items. This is particularly important in the context of Brexit as scarce management attention and resource should be directed to more strategic items in your purchasing portfolio.

However, you should still monitor the impact of Brexit-related factors on routine items. For example, Brexit-related developments in the supply market such as a reduction in the number of price competitive suppliers due to exchange rate changes, or additional costs due to border controls can make you more dependent on a supplier and make it difficult to switch to another supplier.

How to manage the supplier relationship for bottleneck items in a Brexit context

Although bottleneck items are not highly important, there are factors in the supply market that can create uncertainty and vulnerability in supply. In a Brexit context, supply uncertainty may be in the form of supplier delays in delivery, disruptions to supply and inventory shortages.

For bottleneck items, you should focus your efforts on reducing Brexit-related risks in the supply market and ensure continuity of supply.

You could consider some of the following strategies to pre-empt any potential problems with supply from Brexit:

- You could establish a longer-term, close collaborative relationship with the supplier in order to maintain continuity of supply.
- You could operate a consigned stock arrangement with the supplier to allow for any sudden shortages in supply as a result of Brexit. A consigned stock arrangement involves suppliers maintaining a stock of the item in your facility and under your control.
- Where appropriate you could consider re-designing the product so that a component that is subject to supply uncertainty as a result of Brexit could be substituted for another more readily accessible component in the supply market.
- You could maintain some internal capacity in the production of the item to avoid no supply in the event of supplier failure. For example, in the event of supplier failure you may find it difficult to switch suppliers quickly, and therefore, you could retain some internal manufacturing capacity for the purchased items involved.

You should continuously monitor Brexit-related factors that create uncertainty in the supply market.