Overcoming Barriers to Supplier Collaboration

By Warren Sumner

Editor's Note: This is an excellent overview for manufacturing organizations seeking to achieve balance and continuity within their supplier network. Although this white paper is ERP agnostic, the ideas presented can be incorporated as part of your Oracle iSupplier and iSupplier Network implementation and the supporting cast of Procurement and Supply Chain products. True supplier collaboration realizes efficiency gains through embracing the functionality a product like Oracle delivers, which provides seamless integration to your Oracle database and a single point of transmission for electronic document exchange with your trading partners. True supplier collaboration also gains efficiency by exercising best business practices that achieve value and time add for both manufacturer and supplier.

"Streamlining cross-company processes is the next great frontier for reducing costs, enhancing quality and speeding operations. It's where this decade's productivity wars will be fought."
— Michael Hammer
Harvard Business Review, September 2001

Introduction

Manufacturers know they must collaborate with their suppliers to survive in today's market. To date, however, most collaboration efforts have not proved successful. Manufacturers have not seen the return on investment promised by collaborative software vendors. The primary reason for these initial failures has been lack of supplier participation—suppliers simply won't sign on. Supplier relationship management (SRM) solutions tend to focus on benefiting the manufacturers, and suppliers are wary of investing in technology that offers no clear value to them.

In order to realize the fruits of streamlined cross-company processes, manufacturers need a supplier collaboration solution that will fulfill their organizational requirements while providing value to suppliers. Facilitating price discovery or reducing their own costs of acquisition isn't enough. Sophisticated manufacturers know that dramatic cost reductions will only occur when inefficiencies are removed from the total system, with benefits accruing to all parties. This win-win scenario provides the incentive for suppliers to make the process and technology changes that will ensure a successful rollout of the new system.

This paper begins with a discussion about why suppliers are leery of adopting collaborative SRM solutions, followed by insights on what will inspire them to adopt.

The Collaboration Problem: Why Suppliers Say "No"

Collaborative SRM solutions have typically failed up to this point because of suppliers' unwillingness to adopt them. Opposition to adoption goes beyond obvious concerns over the expense involved in an Oracle technology implementation. These deeper, more serious issues include:

- Organizational resistance to change
- Security issues
- Unequal distribution of benefits
- Lack of manufacturer commitment

Organizational Resistance to Change

A major obstacle in supplier adoption of collaboration solutions is resistance to change. A collaborative supply chain implementation requires changes in the internal business processes, technologies, and cultures of the manufacturer and suppliers. Change management is always difficult, as organizations get comfortable with the way they do things. Naturally, a manufacturer has less control of suppliers than it has of its own business.

Overcoming Barriers to Supplier Collaboration

Many suppliers' business processes, departments, and job descriptions are built around electronic data interchange (EDI). Organizations have already made enormous technology and process investments in EDI. Supplier systems and processes are optimized based on information exchanged via EDI standards. Their IT departments are often reluctant to consider replacing these systems since they are functioning on a day-to-day basis, albeit with severe limitations and drawbacks.

Also, most suppliers will be resistant to implementing a new process for a single manufacturing customer. Unless the benefits of the new systems outweigh the pain of change, a manufacturer that asks suppliers to replace EDI with another collaborative solution—especially one that requires major technological changes and drastically impacts how people do their jobs—will likely face resistance.

Database integration issues can also feed into this organizational resistance to change. High-volume supply chains often require integration between manufacturer and supplier enterprise resource planning (ERP) system databases. Any manufacturer seeking to implement a collaboration solution must provide flexible, low cost methods of integrating the supplier's ERP system.

Security Issues

Security concerns can also block supplier adoption. Suppliers may be concerned about sharing their ERP data with manufacturers. Strict rules around opening their firewalls to outside communication can severely hamper the implementation of a collaborative solution.

Manufacturers, on the other hand, may be concerned about providing access to critical production or inventory data. What if that data gets into the wrong hands? What if suppliers see sensitive price or volume information for their competitors? Is access read-only, or can their production data be altered? These and many other questions must be thoroughly addressed before a collaborative system can be deployed.

Unequal Distribution of Benefits

Early collaborative solutions did not present a win-win for both parties in the buy/sell transaction. These public trading exchange marketplaces, where commodity materials are sold at the lowest prices, do indeed take costs related to communication and vendor identification out of the supply chain. Most of the benefits, however, are related to lower pricing, which only benefits manufacturers and doesn't truly remove cost from the supply chain.

While suppliers might participate in such a solution at the pilot stage, they drop out on discovering that they incur substantial costs but derive no real benefits. As a result, public trading exchanges have met with success only in indirect materials or commodities arenas, such as those involving office supplies. The total cost of acquisition for most direct materials purchases involves much

more than simply purchase price, and manufacturers must consider non-price factors such as supplier lead-times, quality, performance, and value-added services. Therefore collaborative systems optimized only on price discovery are not applicable for direct materials purchases.

Lack of Manufacturer Commitment

Suppliers can usually discern if the manufacturing organization lacks commitment to a collaborative project. Since SRM requires a massive amount of change management across multiple organizations, it won't succeed if supplier organizations sense the absence of executive commitment within the manufacturing organization. Particularly if they have seen prior collaborative initiatives fail, suppliers are likely to have a *this too shall pass* mentality. Suppliers have no incentive to go through the pain of changing their business processes if the implementation lacks support at the highest levels on the manufacturing side.

Getting to "Yes"

What Suppliers Really Want

To overcome the obstacles to supplier adoption, the manufacturer must implement an SRM solution that takes the following into account:

- Supplier involvement in crafting the solution
- Shared incentives
- Technology and security issues
- Visibility and commitment
- Importance of rollout momentum
- Ongoing communication
- Key performance indicator (KPI) measurement
- Training and support

Supplier Involvement in Crafting the Solution

The manufacturer must involve suppliers—especially key, influential suppliers—early in the development of the collaborative solution. When the technology provider knows the business processes and concerns of suppliers, it is able to craft a solution that works well for all parties. If the supply base isn't involved, the technology provider can be perceived as an entity interfering with the way the buyer and suppliers do business. Suppliers may then throw up roadblocks to make the collaborative implementation fail.

On the other hand, if suppliers understand that the solution will take their business processes and economic drivers into account and deliver value to them, they are more likely to cooperate. Tailoring the solution around supplier processes will help overcome their natural reluctance to invest in new equipment, despite claims that it will save them money and deliver substantial return on investment (ROI) in the long run.

Understanding suppliers' business issues will help the technology provider craft a solution that delivers measurable value to both buy-side and sell-side parties. Even simple measures, such as involving suppliers in the design of application screens, go a long way towards achieving buy-in. In systems that replace EDI with Web-based communication, the business case might include benefits such as lower processing costs, elimination of value-added network (VAN) fees, and increased flexibility to deal with last-minute changes.

The new solution should impose as little change to existing standard processes as possible. For example, the manufacturer should provide an automated means of interfacing with the new collaboration system that can be implemented without major changes to the supplier's existing business systems. Automated interfaces must be compliant with industry standards such as Web services, XML, SOAP (Simple Object Access Protocol) and Rosetta Net. This ensures that supplier IT investments that interface with one customer's system can be reused to work with additional customers without a substantial project to re-write a new interface.

At the same time, the manufacturer must manage the feedback process, choosing a few key suppliers to pilot the project and offer input. However, the manufacturer needs to recognize that it cannot expect to please every supplier and incorporate all input into the solution.

Shared Incentives

For supplier adoption to occur, the manufacturer must ensure that the solution offers shared incentives to all parties. The distribution of benefits must be such that there is something substantial in it for suppliers, offering them value over time that corresponds reasonably to cost outlays. If the manufacturer alone realizes a financial benefit, the solution will fail.

Benefits to suppliers can include:

- Earlier collection of receivables, with both parties "on the same page" with the same data regarding POs, shipments, and payments
- Enforced process discipline, with the supplier ensuring that the manufacturer receives goods properly and the manufacturer ensuring timely payment
- Visibility to last-minute changes in order status, which eliminates expediting and overtime fees
- Accurate visibility to future demand, allowing for better planning and allocation of resources
- Compliance labeling, ensuring that suppliers always use accurate shipping labels without the cost of maintaining label formats

Addressing the Technology and Security Issues

Even if their technologies differ from those of the manufacturer, suppliers will be more willing to adopt a collaborative solution if they do a high volume of business with the buying organization. They will be even more likely to adopt the solution if it offers a smooth, fast integration path and the same level of functionality provided by their customary EDI or XML integration. In terms of security, the technology provider must overcome supplier bias by offering them a highly secure solution. Manufacturers can follow a number of procedures and best practices to mitigate risks associated with Internet-based transactions. Alternatives to Internet-based communication, such as virtual private networks (VPN), can also overcome objections related to security.

Visibility and Commitment

Any technology solution that involves changes in business processes and impacts a manufacturer's supply base should be critical to the company's top executives and influential owners. Senior management at the manufacturing organization must be aware of and committed to the collaboration project from beginning to end if they want supplier support. To ensure a successful implementation, that visibility and executive support must extend to senior management in the supplying organization. This level of support must be maintained throughout

the project as part of the change management and communication program. Otherwise, the project will lose focus, and ROI will not be achieved.

Importance of Rollout Momentum

Building rollout momentum and an atmosphere of success causes strong supplier adoption. On the other hand, a project that's troubled during the pilot or initial stages of the rollout will be branded as another bad solution pushed on the supply base by the buying organization—and it won't get adopted.

Whether it's justified or not, a bad reputation can kill a project. Suppliers want to belong to a *success club*. When other suppliers observe the success of the pilot, they will have the incentive to jump on the collaborative solution bandwagon.

The big bang approach of going live with the whole project at once—typical in ERP implementations—is difficult and risky in a collaborative solution. To build momentum, the manufacturer must go with a *slow live* rollout. This entails running a pilot program with carefully selected, influential, and technologically savvy suppliers.

The program should include a fast development cycle and go live in a short period of time—typically within six months. (Note that any program that takes more than two quarters to implement runs the risk of cancellation if the business environment changes.) Large, complex projects should be broken into smaller pieces and implemented in a phased approach in order to show success and ROI during each phase.

Ongoing Communication

A successful collaborative solution must facilitate communication internally and externally between the manufacturer and suppliers. Good communication reinforces the benefits of the solution and provides an update of current progress.

A frequent and multi-tiered communication program is critical to maintaining the interest and momentum necessary to maximizing usage of the new system. Messages should be communicated repeatedly through written materials, face-to-face meetings, and Web sites. It's especially important to communicate about and celebrate project successes. This strategy works hand-in-hand with the concept of building momentum through early wins in the project's pilot phase.

Key Performance Indicator (KPI) Measurement

Suppliers will be more apt to adopt a collaboration solution if they know what's expected of them up front. Before the implementation begins, the manufacturer must set up a performance measurement system and apprise suppliers of the KPIs they will measure. These KPIs must go both ways, measuring supplier performance—on-time delivery versus commitment, for example—as well as the buying organization's performance—such as frequency of order changes or number of items received outside of the standard process. They must be included in communication, visible to executive sponsors on a weekly basis, and be linked to both positive and negative consequences to motivate desired behavior.

Instead of generating performance measurement reports by hand or in a standalone spreadsheet, the manufacturer should incorporate the KPIs into the collaboration system. Otherwise performance measures will get dropped if priorities change. The reports should include notifications if a KPI moves beyond a targeted threshold. Also, the KPI should link directly to the

financial results that comprise the ROI established for the project. This can build adoption momentum and provide early warning of risks to ROI achievement.

Training and Support

Effective training and support are essential to supplier adoption. From the help desk through the Executive Sponsor, all parties must be well trained and prepared to do their jobs using the new solution. If problems arise, they can be dealt with quickly instead of mushrooming into the difficult situations that give a program a bad reputation.

Manufacturers that have already attempted collaboration projects know that this element cannot be overlooked. Adequate planning and resources training for affected employees at both the manufacturer and supplier organizations must be budgeted for and included in the implementation. From on-the-job aids and train-the-trainer sessions to online help and short written tests, the training materials and delivery methods employed must be appropriate to the various audiences. Training should be modularized to give suppliers just what they need to know to get the job done and get the job done just-in-time (JIT) to maximize effectiveness. Finally, manufacturers should provide for ongoing training to cover changes and updates to the system or employee turnover at the manufacturer and supplier sites.

Conclusion

To meet the increasing demands of today's markets, manufacturers need to implement collaborative supply chain solutions that streamline business processes with suppliers. Until recently, however, suppliers have resisted making the necessary technology investments and changes in their organizations that would facilitate collaboration. To overcome the obstacles, manufacturers must address a number of supplier issues.

By offering real-time visibility and control of supply chain execution to all parties and addressing supplier issues head on, supplier adoption is encouraged. Manufacturers can orchestrate win-win outcomes with their suppliers, enabling the breakthrough advances in reducing costs, enhancing quality, and accelerating operations that are necessary to win this decade's productivity wars.

About the Author

Warren Sumner, Clear Orbit - Warren brings more than 16 years of operational and consulting experience in the areas of manufacturing and supply chain management to ClearOrbit. Prior to joining ClearOrbit, Sumner held senior management positions at Trellis Development Group and Supply Solution, where he managed cross-functional consulting teams and was responsible for multi-million dollar implementations of supply chain software. Warren may be contacted at Warren.Sumner@ERPtips.com

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