

Our thinking on...

THE SUPPLIER CHALLENGE

British Airways' attempts to reduce costs made headlines recently when it went beyond the usual request for staff to take a pay cut. It wanted its employees to work without pay to see it through its tough times. BA isn't the only company asking employees to make sacrifices for the "greater good"

One survey, by the Keep Britain Working Campaign, estimates that more than half of all UK workers (54%) have experienced a cut in pay, a reduction in hours or a loss of benefits since the recession began.

But how many organisations are turning to their suppliers for ways to reduce costs and share the pain? Why is it companies would

rather their employees feel the pain, than their suppliers?

Outsourcing and downsizing over the last 20 years means that many organisations now spend considerably more on bought in goods and services than they do on direct employees. Logically, therefore, greater savings and benefits are likely to arise from tackling the supplier base, rather than the employee pool.

Reasons vary for not passing on the pain to suppliers: some businesses don't want to be seen as struggling; for others it's about not upsetting a relationship. Some see it as a scorched earth approach to using leverage to force suppliers into unsustainable deals that will not achieve their medium and long-term goals. For others still it's apathy and inertia. Many businesses, let alone their shareholders, struggle to identify what proportion of their cost base is with suppliers versus

employees. This is hardly surprising given that accounting practices have failed to change in step with the shift to outsourcing.

Looking to increase profitability through suppliers is about much more than suppliers reducing prices. It is about working with suppliers to re-engineer processes to identify longer term efficiencies and savings that could ultimately benefit both parties. We call this the Supplier Challenge.

The scale of the benefits from a Supplier Challenge will vary across businesses. However, a 20% saving on the external supplier base is ambitious, but achievable. We are currently on track with an international airline to deliver a £20m cost reduction. Our average on the projects we have undertaken is 16.75%.

The approaches, tool and techniques required to deliver a Supplier Challenge initiative are not new. Essentially they are achieved by adopting a category management approach to procurement. Category management treats each logical expenditure group as a virtual business unit and creates a business plan for the expenditure that the senior leadership can challenge and sign off as being the right approach for the business.

But it is much more than the tools. The right attitude and mindset is essential. The process starts with recognition that the business has moved from an employee based to a supplier based business, and senior management commitment to driving increased efficiencies and profitability through the supply chain.

It needs a focus on creativity that encourages people and teams to create the future they would like to see and then

work backwards from there. It moves away from incremental improvement – how can we make things a little better – to setting an ambitious target, working backwards to determine how we will achieve it and then striving relentlessly to deliver it.

It requires a change from a supplier led to a customer led approach – what we call a switch from getting what we are offered, to getting what we want.

We brand this our 20:20:20 challenge: in 20 days identify 20% of the benefits that can be delivered in 20 weeks.

Our advice is to set ambitious targets, start early and move fast. Employees who are expected to support and deliver a supplier challenge enjoy the process more when they deliver. Aim for 30 % reduction, you may only get 17% but it's better than aiming for 5% and only getting 3%. Senior managers have to be brave enough to celebrate the success, not complain they didn't get 30%.

In our experience setting ambitious targets to deliver significant benefits early in the programme builds confidence in the programme, maintains sponsorship from above and makes the programme self funding from a cash flow perspective in under 12 months.

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This involves deep-diving into the available data to get some transparency about what the organisation is spending, with whom and on what in line with a category hierarchy. Based on the data collection and analysis exercise, the next stage is

to assess to what extent the spend in each category can be influenced and the opportunities available.

This is a factor of the following:

- **Shape of the market: Are there a number of available and appropriate suppliers?**
- **Spend management history: How well has the expenditure and/or the suppliers been managed?**
- **Ability to change: Are there any investment or operational impediments to change?**
- **Willingness to change: Are there any relationship or cultural barriers that could obstruct any proposed changes?**

Stakeholder preference, intellectual property and legacy working practices can all act as brakes on adopting an approach that would deliver optimal results. For good and bad reasons there is often a degree of protection of the existing supplier base and ways of working that will be a barrier to the proposed challenge.

It is a fundamental part of a Supplier Challenge to address working practices and stakeholder preferences if the benefits are to be maximised. The opportunity to reduce cost and deliver benefits arises from the creation of a range of options and the freedom to implement them.

Maintaining delivery of the anticipated benefits requires tenacity and excellent negotiation and commercial skills. Simultaneously, the business needs to implement an ongoing process and practices to protect the benefits identified

and avoid them leaking away into business-as-usual activities.

If it all sounds like hard work, you are absolutely right. It is. It's probably quicker to negotiate a pay freeze with employees. The danger with only focusing on employees is that the quick fix can come with unwanted side effects – poor morale, loss of talent, poor customer service which leads to a further slide in profitability and loss of loyalty.

The Supplier Challenge, although harder, will lead to more sustainable, longer term cost reductions. The old saying necessity is the mother of invention also holds true – it's quite staggering what solutions clients and suppliers can come up with to reduce costs when they need to. Better to have two heads working on it than one.

By Rob Maguire

Rob has over 30 years purchasing and supplier management experience in both operational and

management consulting roles working for Reckitt & Colman (now Reckitt Benckiser); Black & Decker, Austin Rover Group, Pricewaterhouse and Ernst & Young. His consulting experience extends to Europe, the Far East and the United States of America. He is a highly engaging speaker with extensive experience of chairing and presenting at conferences.

Rob is co-author and editor of "Good Purchasing Practice Guide" prepared on behalf of the Universities Funding Council for England and co-author of "Procurement Benchmarking for Higher Education".

