TOPIC SEVEN: Supplier Development and Quality Management

Learning Outcomes:

1. Supplier development
2. Approaches to Supplier development
3. Strategies supplier development strategies
4. Supplier development tools & techniques
5. Supplier development activities
6. Supply base management activities
7. Strategic supplier development process
8. Drivers and enabling actions
9. Barriers to supplier development efforts

Supplier Development

Supplier development is any effort of a buying firm with a supplier to increase its performance and/or capabilities and meet the buying firm's short and/or long-term supply needs. (Krause, 1999)

Supplier development involves the collaboration with your suppliers to improve their performance. It involves increasing capabilities and capacity with your suppliers that will benefit both them and your organization. This could be in terms of costs, quality of products, time it takes to deliver and any emerging technologies that can build efficiencies and improve customer satisfaction.

Approaches to Supplier Development

Directive

Suppliers are directed, regulated via specification of targets, goals etc. This can be viewed as a 'telling' or 'command and control' approach.

Facilitative

Buyers and suppliers engage collaboratively in learning, teamwork and improvement planning, to achieve continuous improvement, best-practice sharing, collaborative learning and a 'win-win' orientation.

Supplier Development Strategies

1) **Competitive pressure.**

A buyer firm may apply competitive pressure on its suppliers by adopting multiple sourcing strategies. Using more than one supplier enables the firm to tap market forces by gaining bids from multiple suppliers. The firm can then distribute the volume of business across the supply base, ensuring that the best-performing supplier is rewarded with the higher volumes. The remaining suppliers are motivated to improve whichever dimension of performance (e.g. quality, delivery or cost) is deemed important by the buyer firm. It also maintains pressure on the primary supplier to ensure their performance does not slip.

2) **Evaluation and certification systems.**

A buyer firm may use various assessment methods to evaluate the suppliers' quality, delivery, cost, technical and managerial capabilities. This assessment is then fed back, ensuring that the suppliers are aware of their performance and the customer (buyer) firm's expectation of their performance, and that they are provided with directions for improvement. Formal evaluation systems and supplier certification programmes communicate. these expectations, as well as motivate suppliers to improve performance.

3) **Incentives.**

The buyer firm may provide a range of incentives for improvements by their suppliers, including increased volume of current business, priority consideration for future business, use of award schemes and sharing of cost savings.

4) **Direct involvement.**

The buyer firm may be proactive in developing suppliers through direct involvement. Direct involvement may include:

- *Capital and equipment investments in suppliers*. For example, buyer firms may invest in dies and fixtures.
- *Partial acquisition of the supplier firm*. This approach has been used widely by Japanese manufacturers, such as Toyota and Nissan who retain a 20–50 per cent equity position in

their largest suppliers (Dyer, 1996). These 'vertical *keiretsu*' create intensive supplier–buyer linkages and high levels of intra-group trade, as well as dedicated investments in design and production equipment by suppliers. Often these relationships are replicated in overseas expansion, with buyer firm investments in a foreign location (such as the US), followed by the establishment of first- and second-tier supplier operations.

- *Investment of human and organizational resources*. For example, training of suppliers' engineers, on-site visits and mutual process adaptations designed to enhance the relationship.

The first three strategies represent externalized supplier development strategies since the firm uses external markets to drive supplier performance improvements. The final strategy, direct involvement, is an internalized strategy as it represents a direct investment by the buyer in their suppliers' activities.

Firms may adopt any one, or a combination, of the above strategies. For example, Dyer and Ouchi (1993) describe how Japanese *keiretsu* simultaneously use competition and cooperation within the supply base. For example, the buyer, let's say. Toyota, may buy 50 per cent of its volume needs from one primary parts supplier, 30 per cent from a second, and 20 per cent from a third, with at least one of the suppliers being outside the *keiretsu* group. Toyota then encourages the second

SUPPLIER DEVELOMENT TOOLS AND TECHNIQUES

Supplier evaluation forms

These are structured forms used to collect detailed information about a supplier's capabilities, reliability, and performance. They help the buying organization to assess and compare different suppliers based on key factors such as quality, price, delivery, and financial stability. For example, before awarding a contract, a company may use an evaluation form to rate suppliers on their delivery reliability and product quality.

Supplier audits / assessments

This involves a systematic examination of a supplier's operations, systems, and performance to ensure they meet the buyer's requirements and standards. Audits help identify weaknesses and areas for improvement. For example, a company may audit a supplier's production site to confirm that it follows proper quality and safety procedures.

Supplier Performance Scorecards

A performance scorecard is a monitoring tool that tracks supplier performance over time using key indicators like quality, cost, delivery, and responsiveness. It helps both the buyer and supplier identify strengths and weaknesses. For instance, a monthly scorecard can show whether a supplier consistently delivers late or provides defective products.

Environmental and social compliance checklist

This checklist ensures that suppliers operate responsibly and comply with environmental and social standards such as proper waste management, fair labor practices, and worker safety. It promotes sustainable and ethical sourcing. For example, a buyer might use this checklist to verify that a supplier does not use child labor and disposes of waste safely.

ICT Systems / E-Platforms

Information and Communication Technology (ICT) systems, such as e-procurement platforms, supplier databases, and online portals, support supplier development by improving communication and data sharing. They enhance transparency and efficiency. For example, suppliers can use e-platforms to update their information, track orders, and receive feedback electronically.

Onsite supplier training

This involves providing practical training at the supplier's premises to improve their skills, quality control, and production processes. It helps align supplier operations with the buyer's standards. For instance, a company may train a supplier on modern packaging methods to reduce product damage during transportation.

Joint problem solving

This technique involves buyers and suppliers working together to identify and solve issues that affect performance or product quality. It builds cooperation and strengthens relationships. For example, if there are frequent product defects, both parties can jointly analyze the cause and implement improvements.

Supplier recognition and incentives

This tool rewards suppliers who perform exceptionally well in areas like quality, cost, or innovation. Recognition can include awards, certificates, or preferred supplier status. For example, a company may give a "Best Supplier Award" to motivate other suppliers to improve their performance.

Process improvement initiatives (Kaizen, Lean, TQM)

These are continuous improvement methods aimed at increasing efficiency, reducing waste, and improving quality. *Kaizen* focuses on small ongoing improvements, *Lean* aims to eliminate non-value-adding activities, and *Total Quality Management (TQM)* emphasizes quality at every stage of production. For example, a supplier may apply Lean techniques to shorten production time and lower costs.

SUPPLIER DEVELOPMENT ACTIVITIES

- A large variety of activities are used by buying firms to develop suppliers' performance and/or capabilities. These activities include:
- Buying from alternative suppliers to generate competition for current suppliers;
- Evaluation of supplier performance;
- Raising performance expectations;
- Recognition and awards for outstanding suppliers;
- Promises of increased present and future business if supplier performance improves;
- Training and education of a supplier's personnel;
- Site visits by customer (buyer) to suppliers' premises;
- Integrated teams to reduce supplier waste and help solve supplier problems;
- Integrated technology roadmaps;
- Access provided to cad/cam software;
- Financial assistance (e.g. Suppliers use customers' volume discounts, interest-free loans to suppliers, or advance payment).

HOW IS SUPPLIER DEVELOPMENT IMPLEMENTED?

Supplier development can take the form of a one-off project or an on-going activity. Simply, it's about giving regular feedback to the supplier on its performance. Supplier development can be a resource-intensive process, which means development should only be undertaken with suppliers from which real benefits can be achieved. The selection of suppliers for development should be dependent on:

- Scale of value and improvement
- Opportunity
- Cost, complexity, and duration of development
- Supplier cooperation
- Risk potential

WHY IS SUPPLIER DEVELOPMENT IMPORTANT?

Supplier development is the process of working one-to-one with suppliers to improve their performance. The driving force of supplier development is the competitive pressures in the market today. It's incredibly risky to change to a different supplier and it involves costs, time, and resources. Taking a current supplier and helping them to develop their performance can add value to your organisation.

Areas of development can include:

- Cost reductions that help to maintain the supplier's profit margin
- Improvement in quality that reduces defects
- Improvement in lead teams and delivery
- Improvement in environmental performance and sustainability within the supply chain
- Improvement in product training

Supplier development benefits both the supplier and your own organization. Having an effective supplier development programme in place will help to:

- Increase supplier responsiveness, particularly to change
- Increased customer satisfaction and experience
- Improved quality both of existing and new products or services

- Improved transparency and collaboration with your supplier
- Establish and develop long term supplier relationships which help to mitigate risk within the supply chain

SUPPLY BASE MANAGEMENT

A supply base is defined as the portion of a supply network that is actively managed by a buying company. The concept reviews effective business relationships with suppliers and ways to facilitate better management of the supply base (Choi, 2006).

Supply Base Management (SBM) is a systematic dynamic approach for strategically managing the whole supply base which might include current suppliers, minor suppliers and potential suppliers (Melnyk et al., 2009).

SUPPLY BASE MANAGEMENT ACTIVITIES

Evaluating supplier performance

This involves continuously monitoring and measuring how well suppliers meet the organization's expectations in terms of quality, cost, delivery, and reliability. It helps identify strong and weak suppliers so that corrective actions can be taken where necessary. For example, a company may use a performance scorecard to assess if a supplier consistently delivers products on time and within the agreed quality standards.

Mitigating risks

Risk mitigation means identifying potential risks in the supply base and taking proactive steps to reduce their impact on operations. These risks may include supply disruptions, poor quality, price fluctuations, or political instability. For instance, an organization may reduce dependency on a single supplier by sourcing from multiple suppliers to avoid interruptions in supply.

Fostering supplier relationships

This activity focuses on building and maintaining strong, long-term relationships with suppliers based on trust, communication, and mutual benefit. Good relationships encourage cooperation, innovation, and better performance. For example, a company might organize regular meetings or joint projects with key suppliers to strengthen collaboration and solve problems together.

Segmentation

Segmentation means categorizing suppliers into different groups based on their importance, performance, or the type of products they supply. This helps the organization manage suppliers more effectively by focusing more effort on strategic or high-value suppliers. For example, a firm may classify suppliers as strategic, preferred, or transactional depending on their contribution to the organization's success.

Contract management

This involves creating, monitoring, and enforcing contracts with suppliers to ensure both parties meet their agreed terms and conditions. Effective contract management helps control costs, improve compliance, and prevent disputes. For example, a procurement officer may regularly review supplier contracts to ensure delivery timelines and payment terms are being followed.

Aligning procurement activities with organizational goals

This means ensuring that all procurement and supply management decisions support the wider objectives of the organization, such as cost reduction, quality improvement, sustainability, or customer satisfaction. By aligning these activities, procurement adds value to the business. For instance, a company aiming for environmental sustainability may prioritize sourcing from eco-friendly suppliers.

Supply base optimization

This involves determining the right number and mix of suppliers to ensure efficiency, quality, and reliability in the supply chain. It may include reducing too many small suppliers or adding new ones to improve competition and performance. For example, a company may consolidate its supplier base from 100 to 50 reliable suppliers to reduce management costs and strengthen partnerships.

SUPPLIER DEVELOPMENT PROCESS

1 *Identify critical products for development*	For example, using Kraljic's matrix, discussed in Chapter 5: mainly strategic or bottleneck products
2 *Identify critical suppliers for development*	Identifying suppliers who have the capability to meet present and future needs, with the potential for leverage
3 *Appraise supplier performance*	
4 *Determine performance gaps*	The gap between present and desired supplier performance (eg quality achieved versus quality required, or level of purchaser relationship compared with the expectations of both parties)
5 *Form cross-functional SD team*	To appraise suppliers, identify gaps and negotiate and collaborate with suppliers on improvements
6 *Meet with supplier's top management*	To clarify mutual expectations and build trust
7 *Agree how perceived gaps can be bridged*	Using a range of possible approaches, discussed in detail below
8 *Set deadlines for achieving improvements*	Reasonable, jointly agreed and strictly enforced
9 *Monitor improvements*	For example, via follow-up visits, supplier evaluation and performance feedback

BARRIERS TO SUPPLIER DEVELOPMENT EFFORTS

Numerous barriers to successful supplier development exist. They can usually be broken down into one of three categories:

1. Supplier - specific,
2. Buyer - specific and
3. Buer - supplier interface.

Area	Main issues
Buyer-specific	■ Lack of buyer top management commitment ■ Too small purchases by the buyer firm spread across too many suppliers ■ Supplier not important enough to buyer ■ Overly ambitious expectations that go unrealised
Supplier-specific	■ Lack of supplier commitment ■ Lack of buying firm power creates supplier reluctance to participate ■ Insufficient supplier human resources ■ Insufficient supplier technical capabilities
Buyer–supplier interface	■ Lack of mutual trust ■ Ineffective communication of potential benefits ■ Insufficient inducements to the supplier ■ Supplier is reluctant to share cost/process information ■ Poor cultural alignment

Questions

1. Discuss, with examples, the strategies that may be adopted when developing a supplier.
2. Give examples of good and bad practice in supplier development.
3. Discuss how a particular supplier may be developed in a case study of your choice.