

# **BUILDING HIGH PERFORMANCE RELATIONSHIPS WITH SUPPLIERS**

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# Supply Chain Management

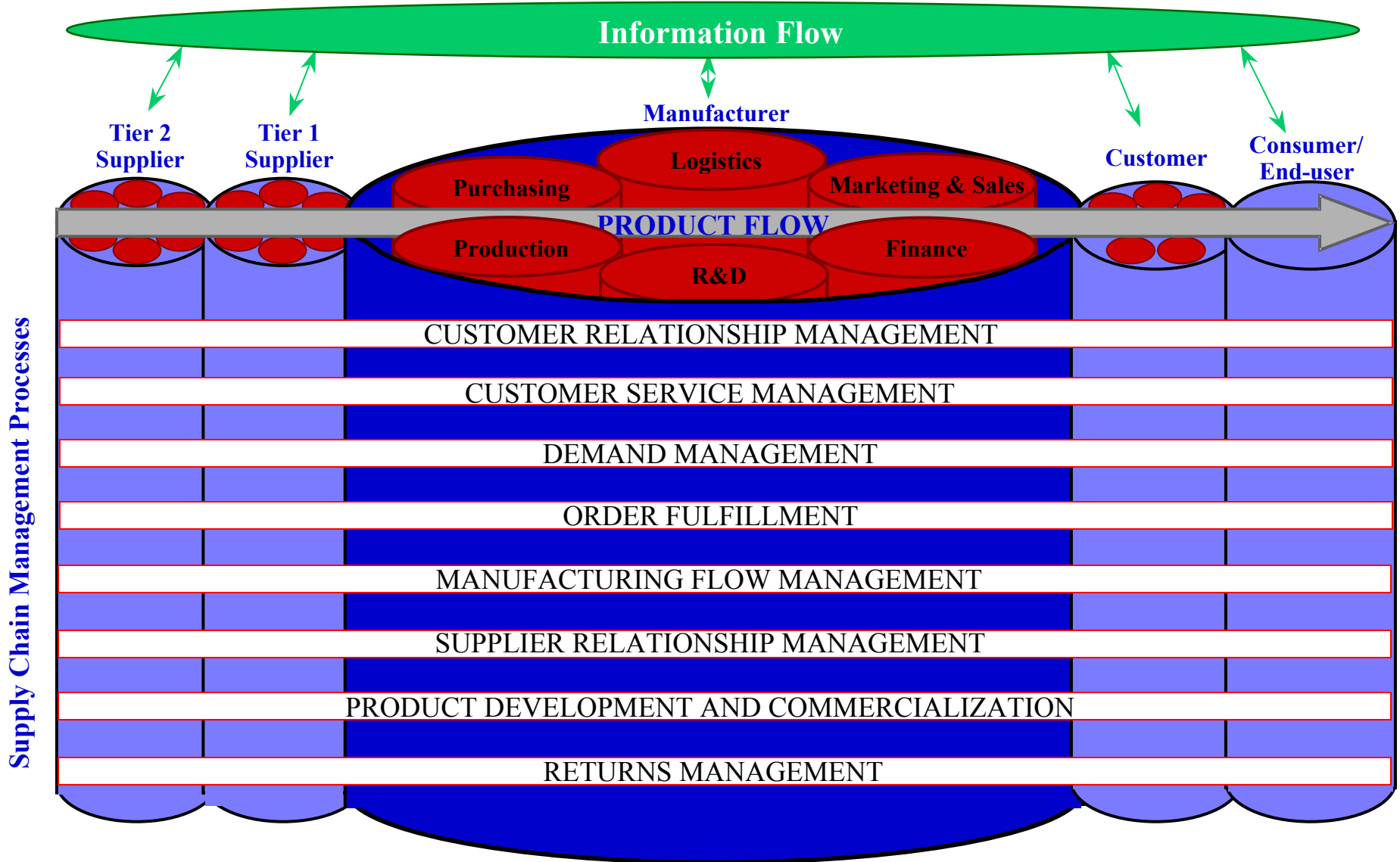
...is the integration of **key** business processes from end user through original suppliers, that provides products, services, and information that add value for customers **and other stakeholders.**

[The International Center for Competitive Excellence, 1994]

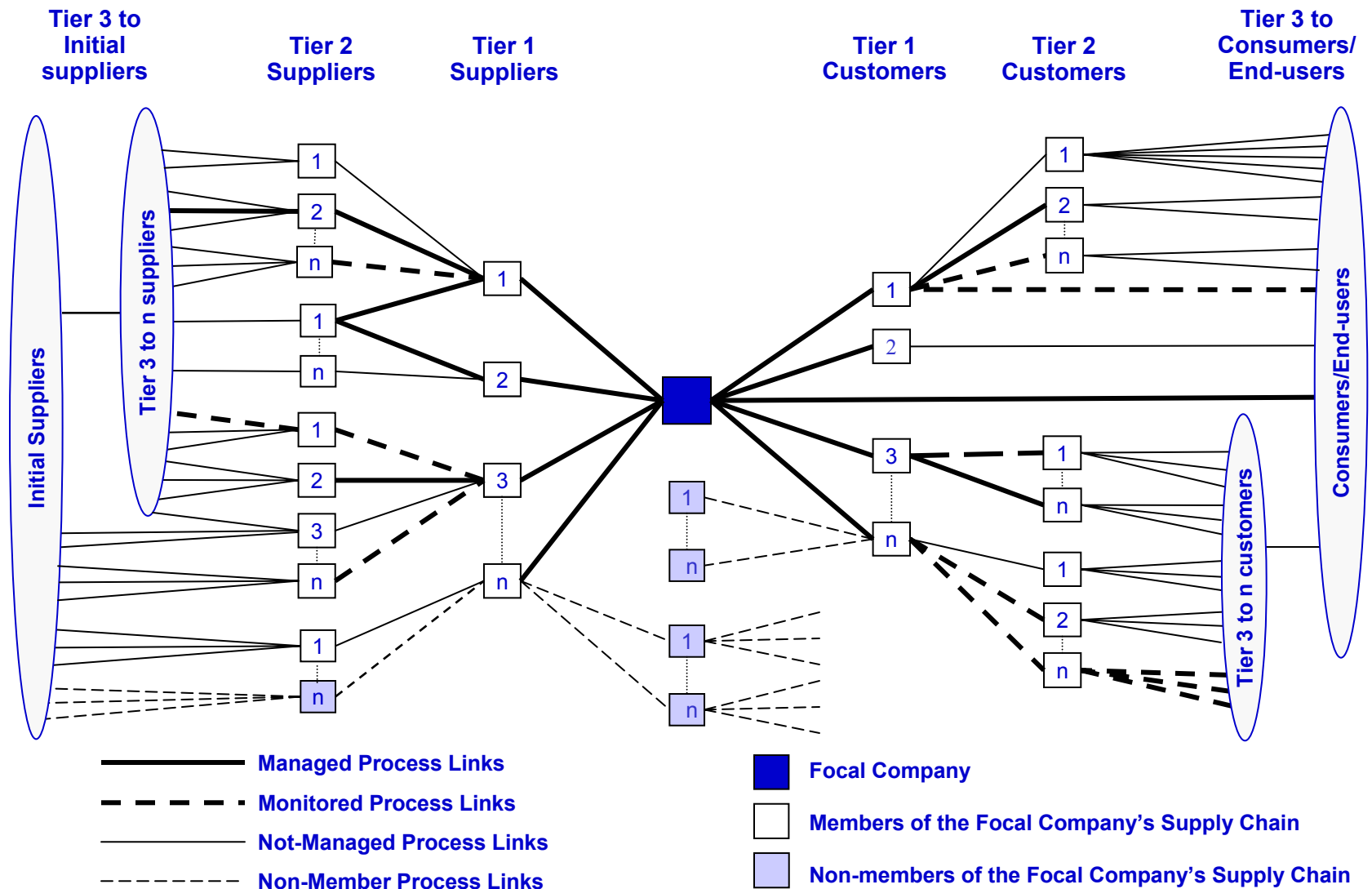
[The Global Supply Chain Forum, 1998]

# SUPPLY CHAIN MANAGEMENT

## Integrating and Managing Business Processes Across the Supply Chain



# Types of Inter-company Business Process Links



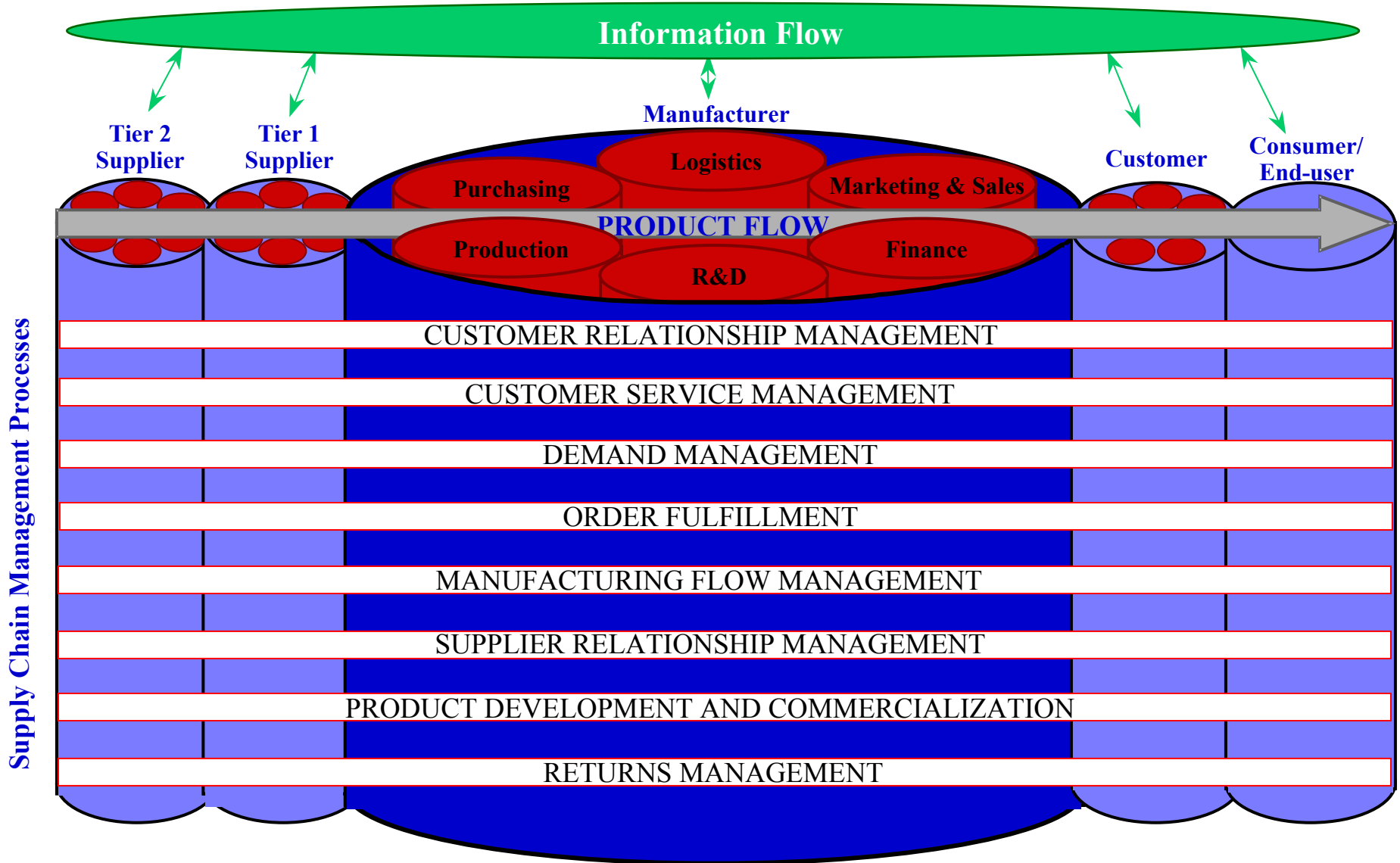
# FUNCTIONAL INVOLVEMENT IN THE SUPPLY CHAIN MANAGEMENT PROCESSES



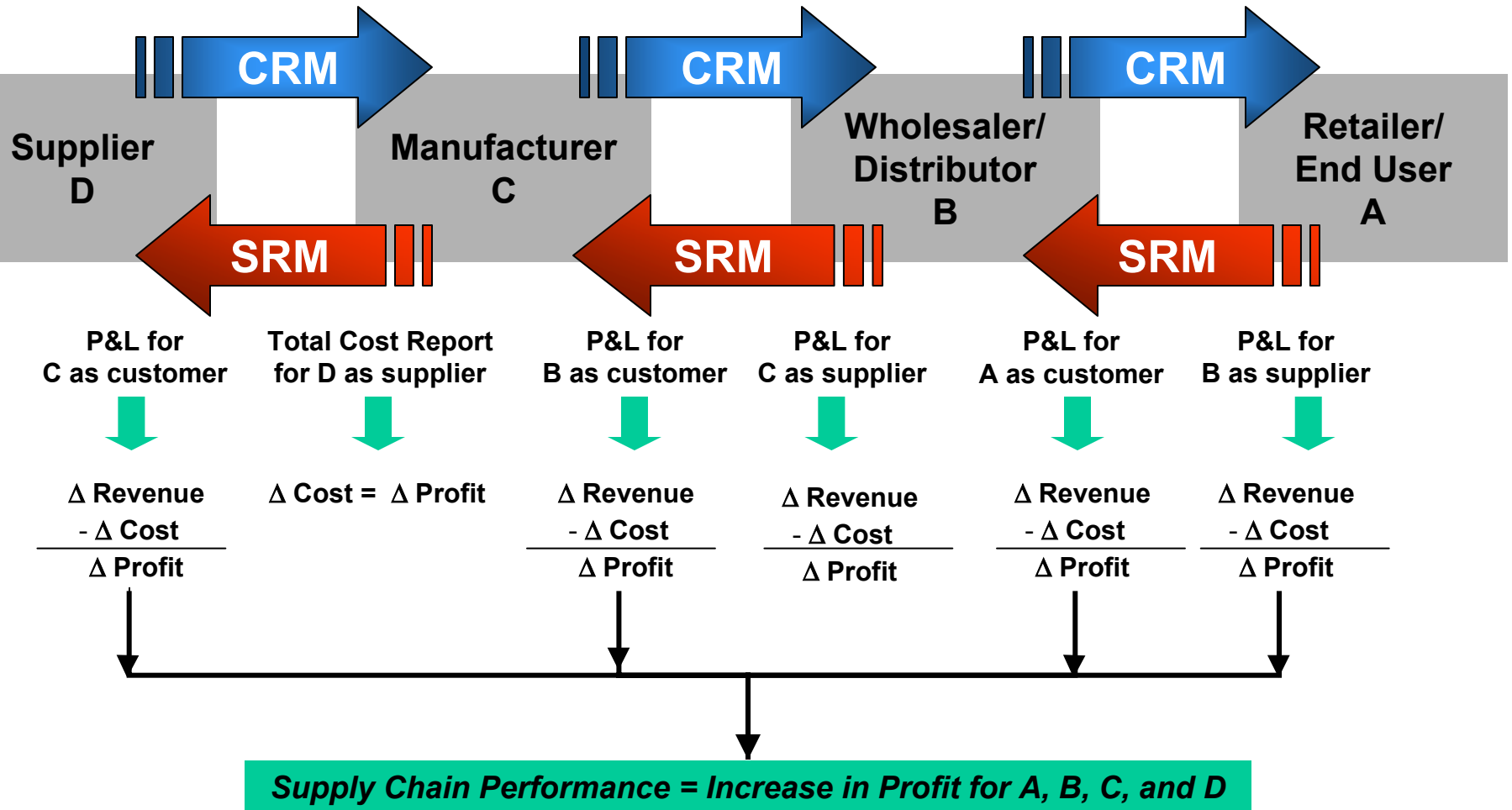
Note: Process sponsorship and ownership must be established to drive the attainment of the supply chain vision and eliminate the functional barriers that artificially separate the process flows.

# SUPPLY CHAIN MANAGEMENT

Integrating and Managing Business Processes Across the Supply Chain

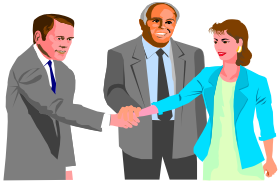


# Customer Relationship Management (CRM) & Supplier Relationship Management (SRM): The Critical Supply Chain Management Linkages



## Required Behaviors

Relationships with major suppliers are corporately managed as partnerships while purchase order transactions become simplified and integrated with the supply process.



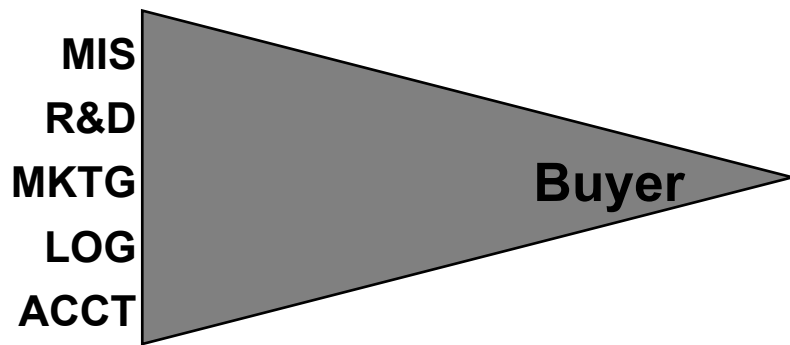
**Supplier Relationship  
Management Process**

# Supplier Relationship Management Process

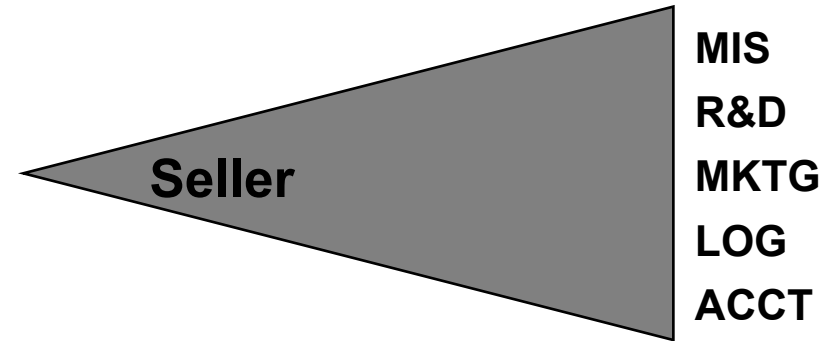
- Product/service agreements are developed and managed with key suppliers and segments of non-key suppliers.
- Teams work with suppliers to maintain costs and improve service.
- Goal is to improve the profitability of both the focus firm and the suppliers.
- Purchase order transactions are integrated with the supply process to improve productivity and all areas of supplier performance.



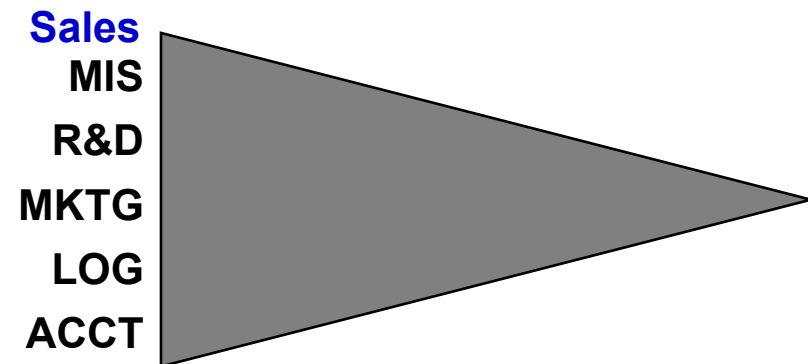
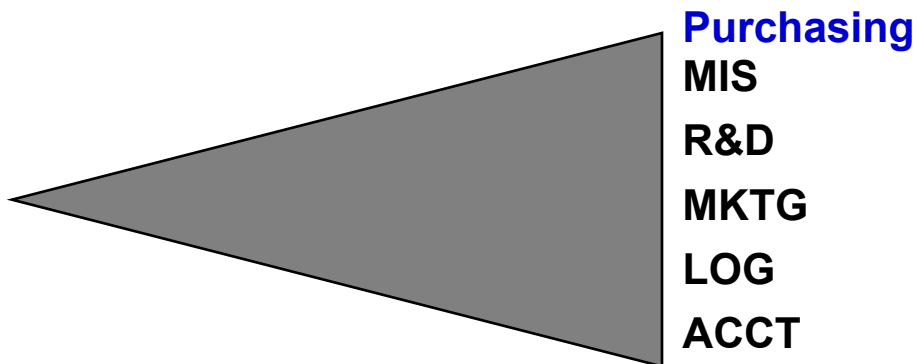
# Supplier Relationship Management Teams



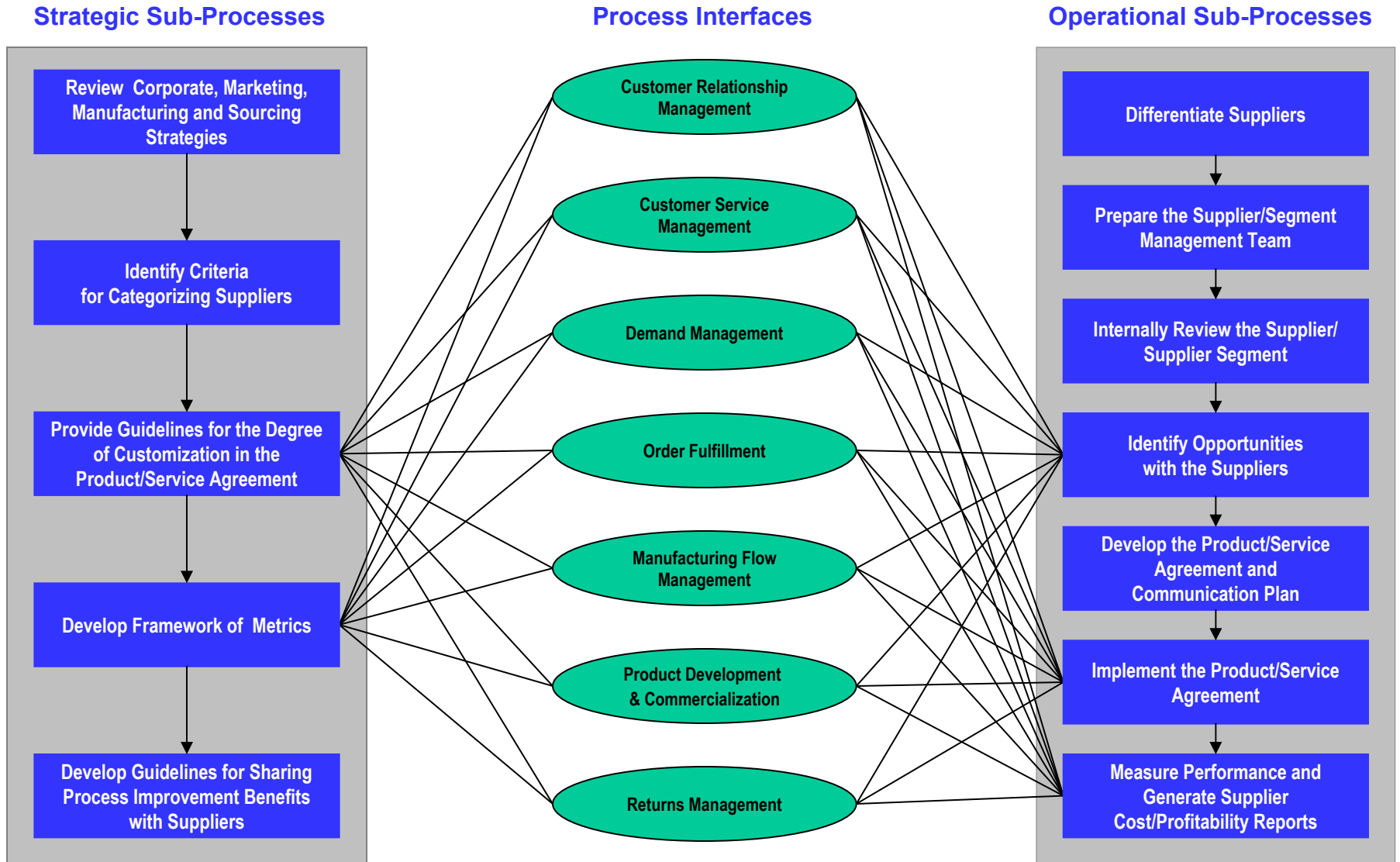
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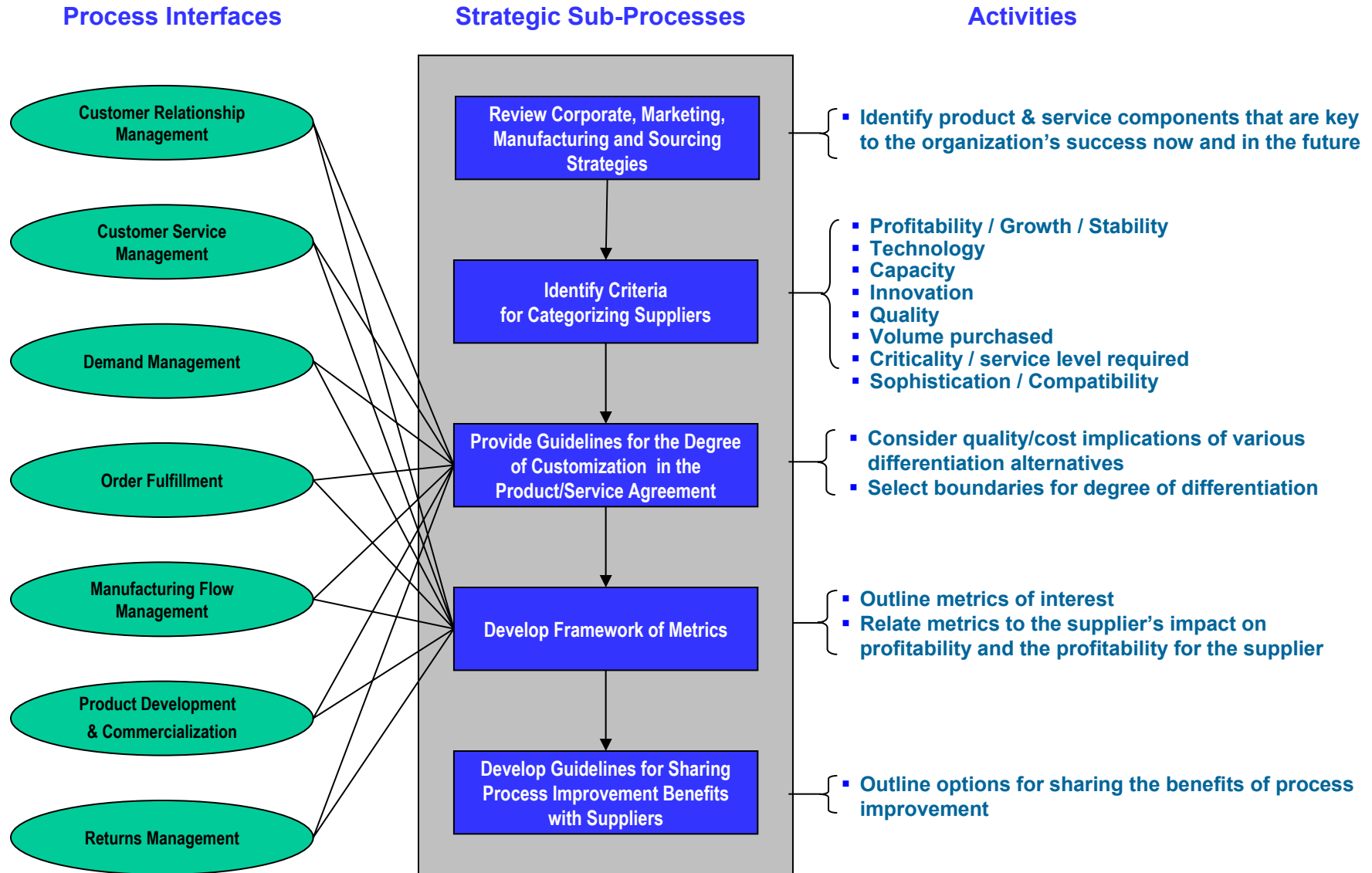
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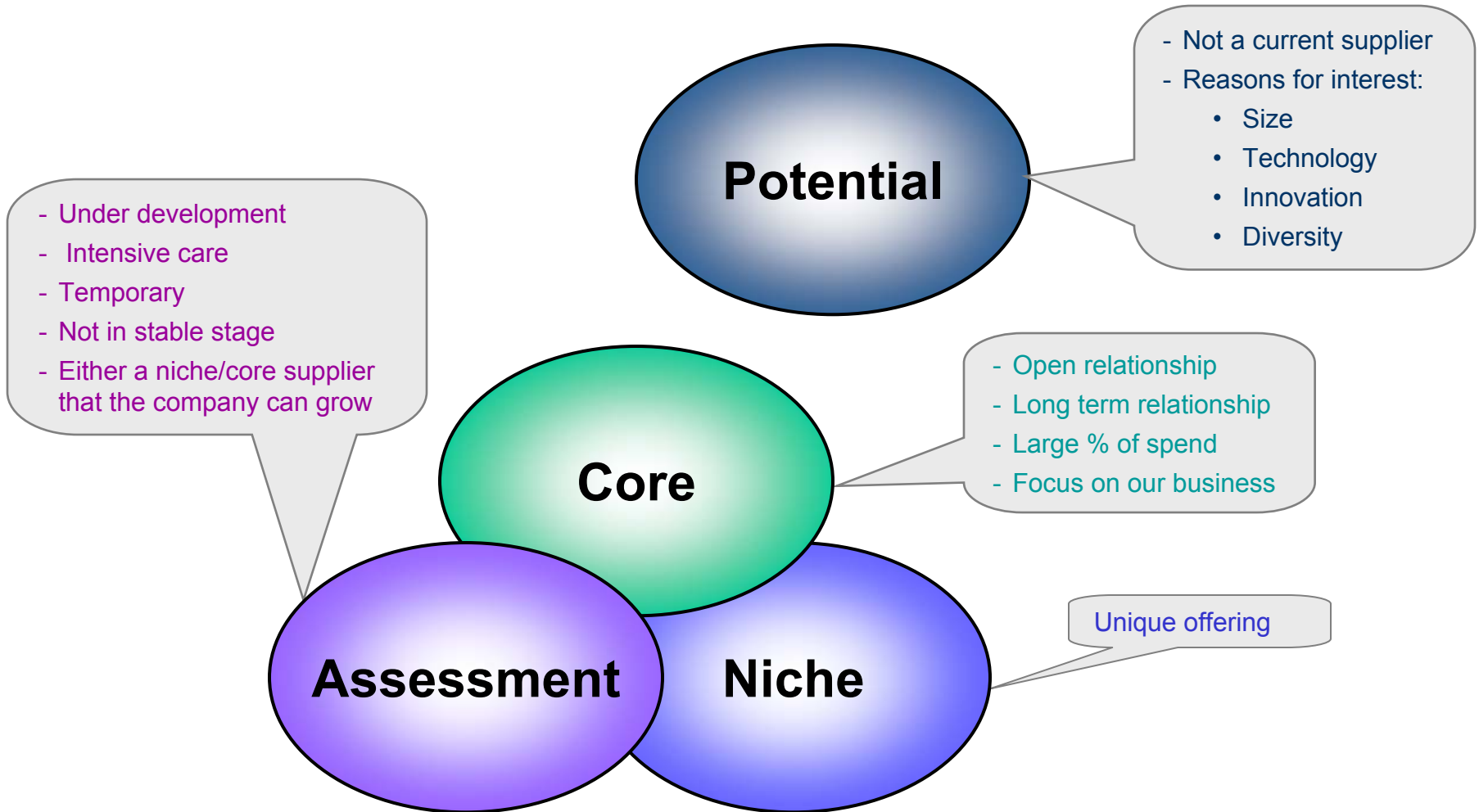
# Supplier Relationship Management



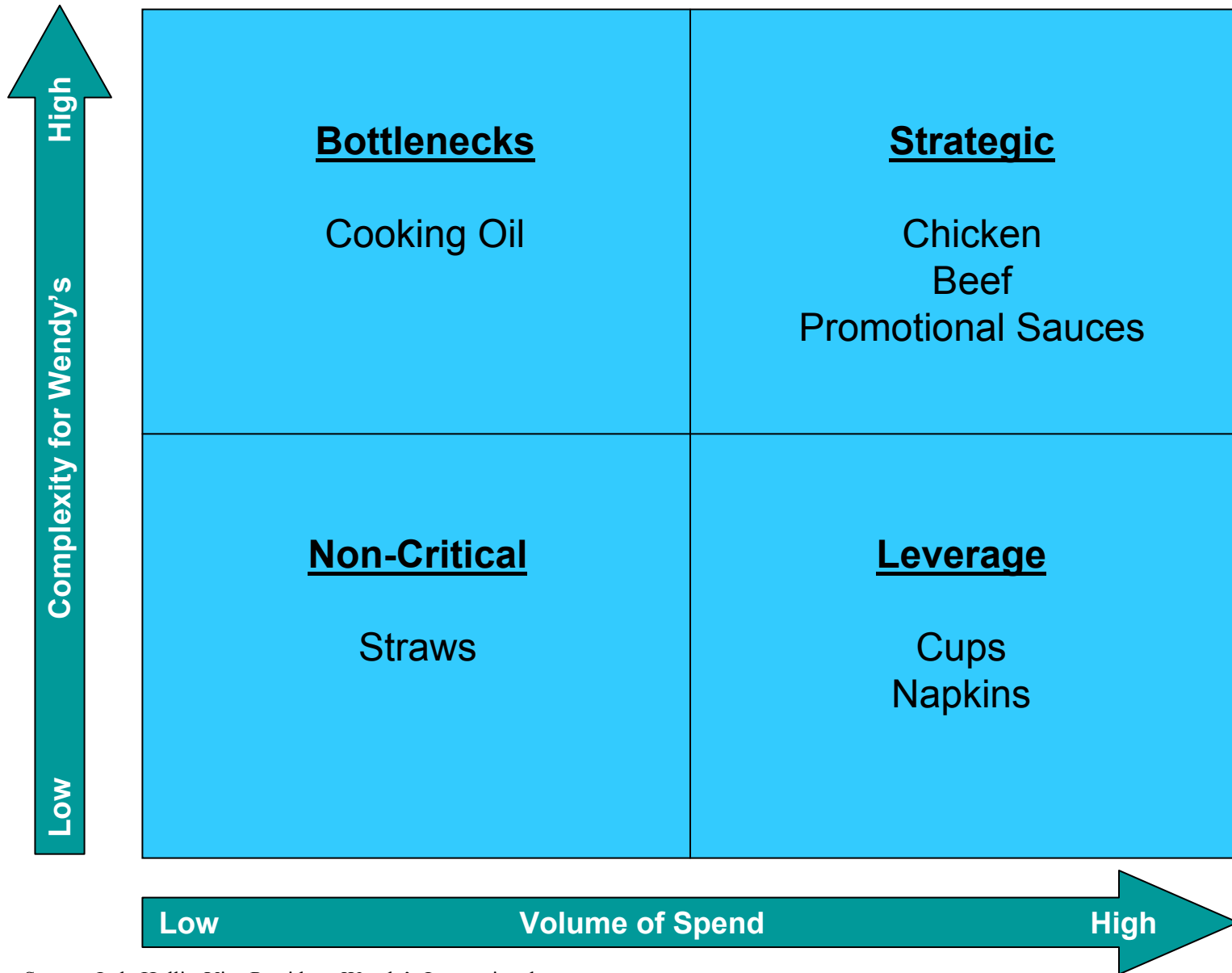
# The Strategic Supplier Relationship Management Process



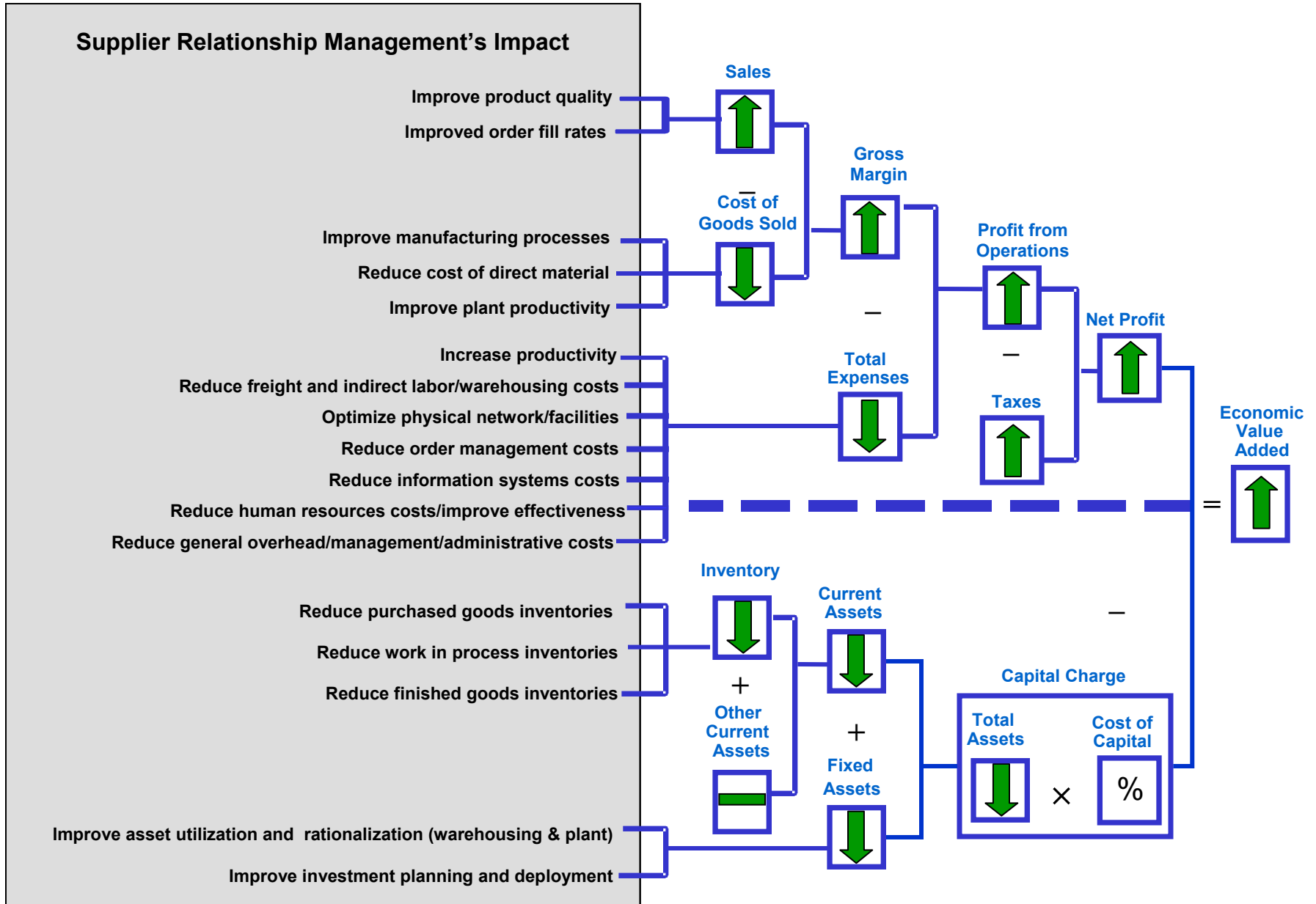
# Categorizing Packaging Suppliers at Masterfoods USA



# Comparing Suppliers on Complexity and Volume

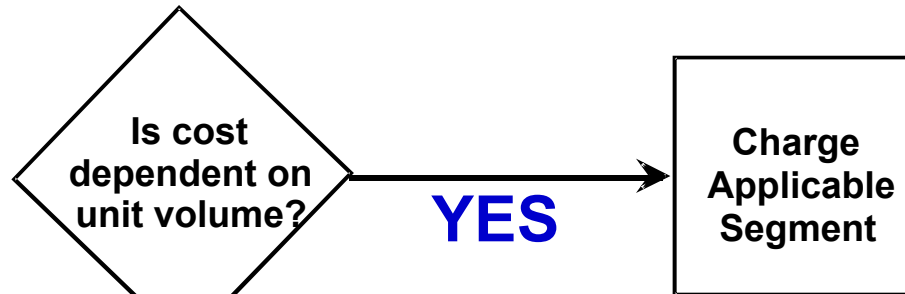


# How Supplier Relationship Affects Economic Value Added (EVA®)



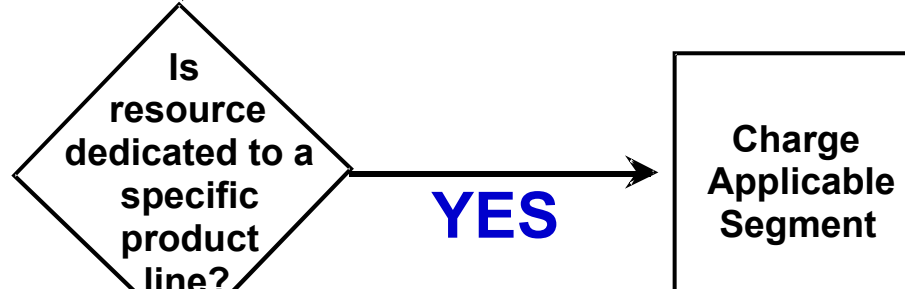
# Assigning Costs to Segments

**Variable**



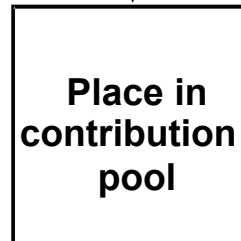
**NO**

**Non-Variable**



**NO**

**Indirect**



# SUPPLIER PROFITABILITY ANALYSIS: A CONTRIBUTION APPROACH WITH CHARGE FOR ASSETS EMPLOYED

	SUPPLIER A	SUPPLIER B	SUPPLIER C	SUPPLIER D
SALES				
COST OF GOODS SOLD				
GROSS MARGIN				
PLUS: DISCOUNTS AND ALLOWANCES				
MARKET DEVELOPMENT FUNDS				
SLOTING ALLOWANCES				
CO-OP ADVERTISING				
NET MARGIN				
VARIABLE MARKETING & LOGISTICS COSTS:				
TRANSPORTATION				
RECEIVING				
ORDER ROCESSING				
Other Costs (will depend on situation)				
CONTRIBUTION MARGIN				
ASSIGNABLE NONVARIABLE COSTS:				
SALARIES				
ADVERTISING				
INVENTORY CARRYING COSTS LESS:				
CHARGE FOR ACCOUNTS PAYABLE				
Other Costs (will depend on situation)				
SEGMENT CONTROLLABLE MARGIN				



# The Three Components of Total Costs

- **Acquisition Costs**

- Purchasing price
- Quality costs
- Financing costs
- Planning costs
- Taxes

- **Ownership Costs**

- Downtime costs
- Cycle time costs
- Non-value-added costs
- Risk costs
- Conversion costs
- Supply chain/Supply network costs

- **Post-Ownership Costs**

- Environmental costs
- Product liability costs
- Warranty costs
- Customer dissatisfaction costs

# Sysco Sales and Earnings History

**FY03 Sales +11.9%; Net Earnings +14.5%**



\* All net earnings data is before accounting changes.

Source: Neil Theiss, Senior Director, Supply Chain Management, Sysco Corporation.

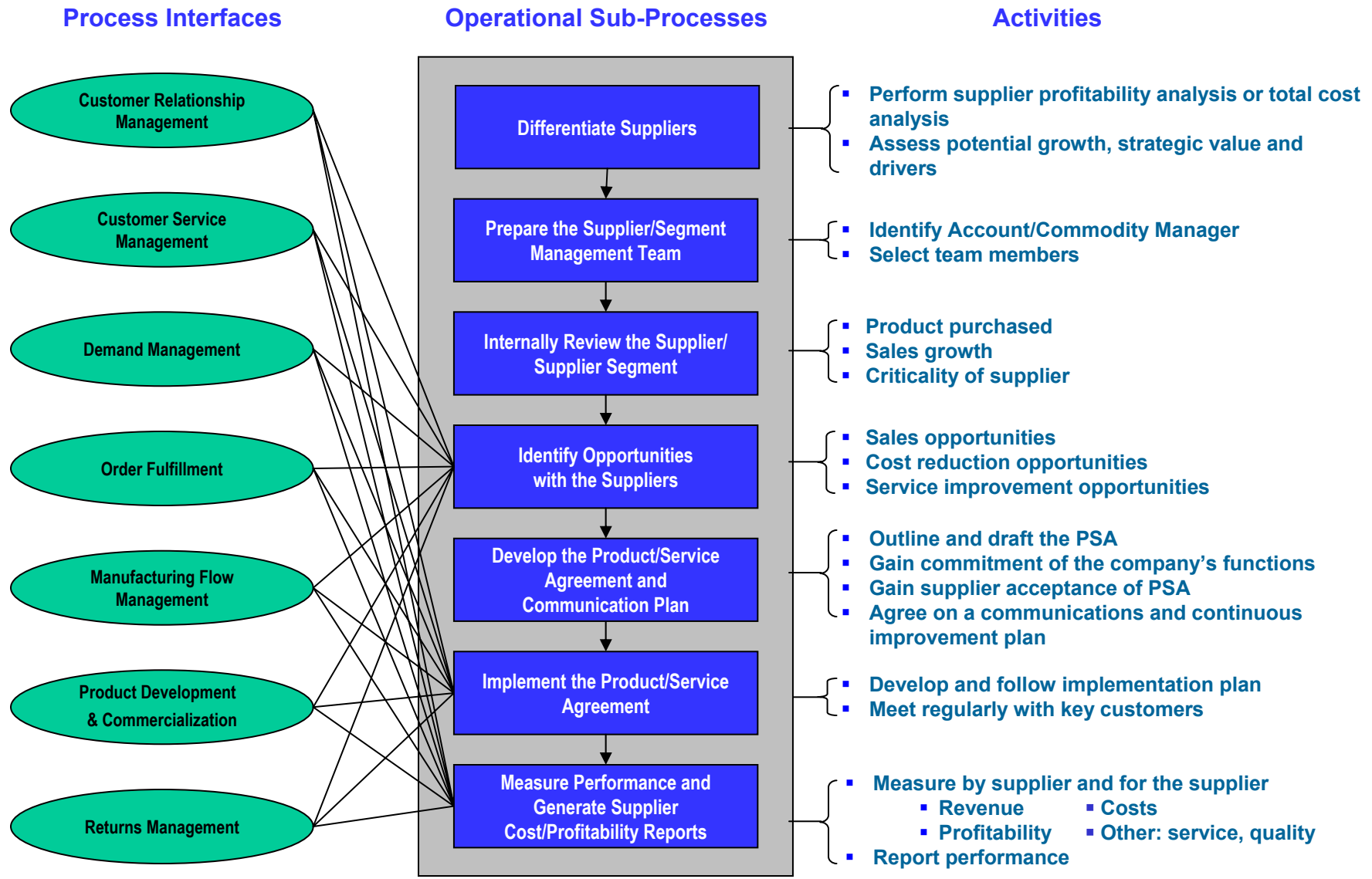
# COMBINED CUSTOMER-SUPPLIER PROFITABILITY ANALYSIS: A CONTRIBUTION APPROACH WITH CHARGE FOR ASSETS EMPLOYED

<b>Supplier</b>	<b>CUSTOMER A</b>	<b>Customer</b>	<b>SUPPLIER A</b>
NET SALES		SALES	
COST OF GOODS SOLD (VARIABLE MFG. COST)		COST OF GOODS SOLD	
MANUFACTURING CONTRIBUTION		GROSS MARGIN	
		PLUS: DISCOUNTS AND ALLOWANCES	
VARIABLE MARKETING & LOGISTICS COSTS:		MARKET DEVELOPMENT FUNDS	
SALES COMMISSIONS		SLOTING ALLOWANCES	
TRANSPORTATION		CO-OP ADVERTISING	
WAREHOUSING (HANDLING IN AND OUT)		NET MARGIN	
SPECIAL PACKAGING		VARIABLE MARKETING & LOGISTICS COSTS:	
ORDER PROCESSING		TRANSPORTATION	
CHARGE FOR INVESTMENT IN ACCTS. REC.		RECEIVING	
CONTRIBUTION MARGIN		ORDER ROCESSING	
		CONTRIBUTION MARGIN	
ASSIGNABLE NONVARIABLE COSTS:		ASSIGNABLE NONVARIABLE COSTS:	
SALARIES		SALARIES	
SEGMENT RELATED ADVERTISING		ADVERTISING	
SLOTING ALLOWANCES		INVENTORY CARRYING COSTS LESS:	
INVENTORY CARRYING COSTS		CHARGE FOR ACCOUNTS PAYABLE	
SEGMENT CONTROLLABLE MARGIN		SEGMENT CONTROLLABLE MARGIN	
CHARGE FOR DEDICATED ASSETS USED		CHARGE FOR DEDICATED ASSETS USED	
NET SEGMENT MARGIN		NET SEGMENT MARGIN	

**“ I ask my executives to run the business as if it is the only asset their family has, they can’t sell it, and they are going to own it for 100 years.”**

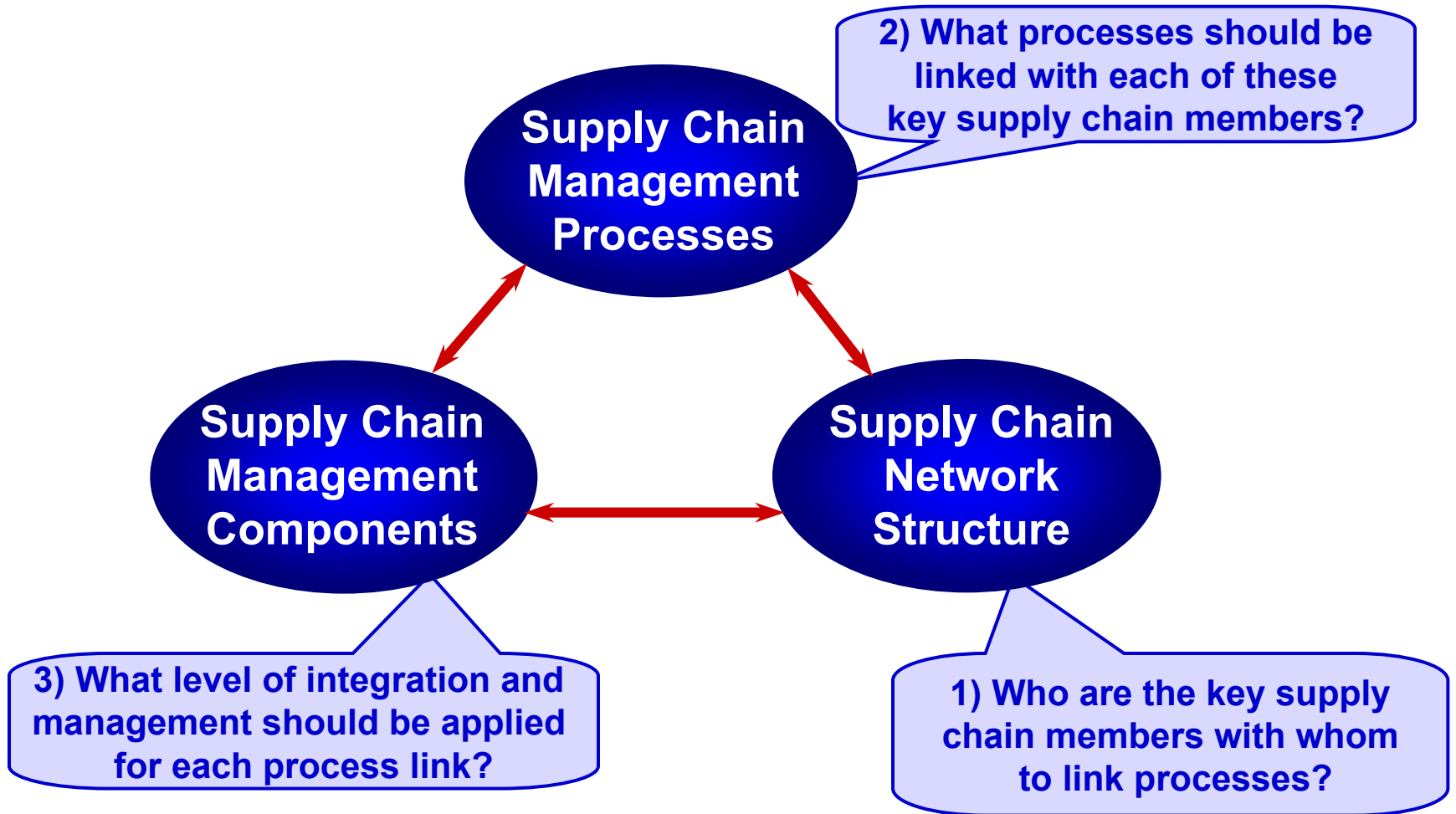
**Warren Buffett**  
**Berkshire Hathaway**

# The Operational Supplier Relationship Management Process



# SUPPLY CHAIN MANAGEMENT: Elements and Key Decisions

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**THANK YOU**

**DO YOU HAVE ANY  
QUESTIONS??**