



Chainlink Workbook 1

## Customer/supplier integration



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The first-time user should take the time to read the whole of the introduction. Returning users may wish to use the links above.

### Introduction

This Chainlink module covers the basic procurement and supply activities of any customer/supplier relationship in the supply chain. It should be applied to all procurement activities to ensure that company management resources are used most effectively. Knowing where to concentrate effort is an important part of the process.

Because of the complex operational nature of nearly all construction activities a degree of integration can be beneficial to most relationships. This module will guide the user to the most appropriate customer/supplier relationship for a particular activity and identify guidance on how to establish the necessary relationships.

This module will guide the user through the steps necessary to realise the benefits of supply chain integration. By focusing procurement activities on a small number of suppliers, both parties are able to make operational improvements and achieve cost reductions. In particular, suppliers are able to bring improvements from predictable workloads and economies of scale to the benefit of both parties. All the procurement methodologies referenced here benefit from long-term stable relationships and together can deliver the benefits envisioned in 'Accelerating Change.'

Separate consideration in the risk/value analysis is given to both suppliers and customers. It is recommended that both parts be reviewed to gain a proper understanding of the type of relationship that is appropriate.

#### The benefits

The benefits which can arise from integrating the supply chain are substantial and manifold. They range from reducing waste in time, materials and people through to improving design both to reduce cost and improve the final product. However, fully effective mutual relationships can take time to develop and both customer and supplier should initially concentrate on identifying and categorising those areas where the most important and easily available gains can be obtained. The most common reason for not achieving the available improvements is through failure to rigorously establish and pursue the changes necessary for their implementation.

### Relevance

Members of the supply chain who are involved in the supply or procurement of any products, services or combinations of both.

## Using this Toolkit module

The module starts by helping the user define their procurement strategies by using a management tool called 'risk/value analysis'.

The second stage takes the user through the selection of suitable suppliers to get the most out of the identified procurement strategy.

Stage three helps to identify the principal improvements which can be targeted for each procurement strategy and leads the user to further details on realising them.

Each key step in the development of a procurement strategy is identified in the 'Process' column. The 'Culture and Activities' column then provides a summary of the necessary ethos and actions required for their implementation. The adjacent 'Tools and Techniques' column provides recommendations, Toolkit cross-references and links to external supporting information.

Note: Users of this Toolkit module are encouraged to explore the other sections of this Toolkit to determine their position in the overall construction supply spectrum, to better understand the benefits and workings of the integration concept and to gain an appreciation of the need for collective supply chain focus to ensure a satisfactory end result.

## Analysis for customer/supplier requirements

Step	Process	Culture and activities	Tools and techniques
1.1	<b>Identify and rank product and service procurement needs</b>	The first step in the process is to gather data on current procurement. This is then used to complete an analysis of risk against value for different product and service needs.	Training in applying these techniques in a construction environment is available from CWC Ltd. <a href="http://www.collaborativeworking.co.uk">www.collaborativeworking.co.uk</a>
1.2	<b>Evaluate spend for product and service groups</b>	Gather and evaluate expenditure totals for individual products and services. The concentration is on the type of product or service, not on individual suppliers. If such analysis has not been done before it is likely that several suppliers provide similar products or services. Use a common period for the analysis; an annual view is most likely to give the best data.	
1.3	<b>Define the risk associated with each product or service</b>	Whilst risk can broadly be defined as a failure to supply, more specifically, purchasing risk can be defined as the financial impact on an organisation, as a consequence of an interruption to its routine performance due to such a failure. Sometimes this kind of risk is caused by external factors, but sometimes the organisation itself behaves in ways that exposes it to supply risk. All of these internal and external risks affect are affected by the available supply market. The more risk there is, the more important strategic supply planning becomes. Purchasers need to account for risks and foresee any likely problems that may bring operations to a halt. Missed opportunity can also be considered as a risk. The failure to procure the optimum solution either as a product or service can mean a missed opportunity for profit improvement or leave the purchaser at a disadvantage to its competitors. The comparative level of risk to use in the risk/value analysis is a combination of the risk of a problem arising and the damage, financially or otherwise, which would occur should it happen.	Use <b>this flowchart</b> to help position items on your chart.

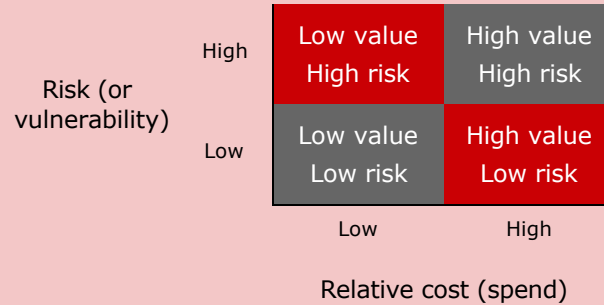
1.3a	<b>Internal causes of risk to consider</b>	Internal risk factors often arise from rigidity or inflexibility within the organisation, making it difficult for purchasers to make the best decisions for the firm. Another common source of supply risk is a lack of mutual understanding between purchasers and suppliers. Some typical causes may include:	<ol style="list-style-type: none"> <li>1. Too narrow specifications restrict supply market.</li> <li>2. Inappropriate contract/treatment may alienate key supplier.</li> <li>3. Organisational constraints discourage new solutions.</li> <li>4. Complex processes create narrow/special requirements.</li> <li>5. Inflexible processes preclude alternatives.</li> </ol>
1.3b	<b>External causes of risk to consider</b>	External risk arises largely from unpredictability, and economic forces to which all organisations are subject. Some examples may include:	<ol style="list-style-type: none"> <li>1. Market dominated by few suppliers.</li> <li>2. Technically complex item.</li> <li>3. Rapidly changing technology item.</li> <li>4. Process with long lead-time.</li> <li>5. Volatile supply/demand swings in market.</li> <li>6. Supplier financially unreliable.</li> <li>7. Supplier has unique selling advantage.</li> <li>8. Few suppliers can meet quality requirements.</li> </ol>
1.3c	<b>Missed opportunity as risk</b>	Missed opportunity can have as significant an effect on company financial performance as any other risk. This is because the organisation can lose opportunities to improve internal performance and put itself at a competitive disadvantage in its market-place. Examples could include:	Examine the improvements list at the end of this Toolkit to help recognise those opportunities which could come from a more integrated relationship.
1.4	<b>Plot value vs risk</b>	To understand how vulnerable an organisation is to different procurement risks, a comparison needs to be carried out between the value of spend on a purchase/product/resource and its associated risk. There are four relationships that need to be considered:	An example of a completed chart for a lead contractor is shown <a href="#">here</a>

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1.4	<b>Plot value vs risk</b>	To understand how vulnerable an organisation is to different procurement risks, a comparison needs to be carried out between the value of spend on a purchase/product/resource and its associated risk. There are four relationships that need to be considered:	An example of a completed chart for a lead contractor is shown <a href="#">here</a>
		<ol style="list-style-type: none"> <li>1. High-value spend items that have a high risk associated with their use.</li> </ol>	

2. High-value spend items that have a low risk associated with their use.
3. Low-value spend items that have a low risk associated with their use.
4. Low-value spend items that have a high risk associated with their use.

Determining whether or not an item is high or low cost and high or low risk is called 'Supply Positioning Analysis.' In this analysis, items are positioned on a chart, and this 'position' determines the supply market strategy and much more.



Courtesy of *PMMS Consultancy Group*

## 1.5 Supply Positioning Analysis

Not only is supply positioning a powerful tool for advancing customer interests, it is also a pervasive one, affecting every dimension of the purchasing function.

So much is written on the so called 'right' way to purchase. One can easily become confused as to what the customer should actually do in specific situations. One adviser may suggest that 'partnership' type relationships are preferred, whilst others may say that a much harder, 'price-oriented' negotiation is the best way.

The truth is that both of these strategies and more are needed in order to make good business decisions about suppliers. It is not a question of which method is right, but rather which method to choose under which circumstances.

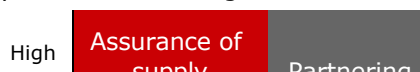
The four quadrants of supply positioning provide the guidance an organisation needs in solving purchasing problems of every kind.

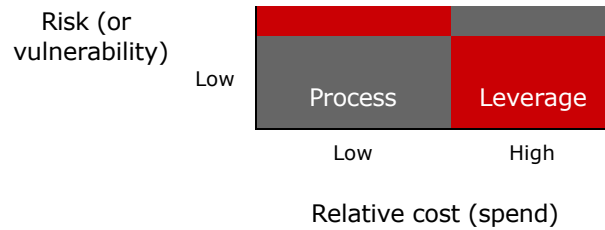
If you, as a customer, are questioning what type of partnership/relationship you should build with a supplier, the themes for each quadrant give you specific guidance for each class of item.

It is important to remember that it is items which are being positioned here, not supplier, a mistake most companies make with this approach.

All of these relationships can and should co-exist. Strategic purchasing requires intelligent choices regarding relationships. A general decision to pursue one kind of supplier relationship for every item is actually an internal risk factor to be managed, rather than a solution to anything.

Each of the four quadrants are given a name that reflect how they need to be managed:





Courtesy of *PMSS Consultancy Group*

## 1.6 The Cost of Failure

Since supply positioning can be such a powerful tool, it has to be applied with care and precision. Some of the implications are immediately obvious:

1. Treating a leverage item as if it was a partnering item would make it difficult to exploit any opportunities for lowering costs.
2. Treating an assurance of supply item as a process item would obscure the need to monitor its availability closely.
3. Treating a partnering item as a leverage item might strain the relationship with the supplier thereby ensuring that the supplier does not share the latest ideas and developments.

In summary – the negative consequences from mis-categorisation will be:

- inappropriate treatment of the supplier by the buyer
- mis-match of desired relationship
- gap between supplier performance and the business need
- both buyer and seller become demotivated.

## 1.7 Application of the strategy

Having positioned the various products and services the organisation should prioritise the strategy development allowing for:

- importance of risk reduction
- opportunity for cost savings and other improvements
- ease of implementation
- available procurement resource
- other available resource; implementation of some strategies, especially partnering, requires time and effort commitment from many other parts of the organisation to extract the maximum improvements.

The next steps are to start implementing the new procurement strategies as detailed below.

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## 1.8 Process procurement strategies

The items in the bottom left quadrant will be low value and have a low-risk exposure. There are many suppliers in the market able to meet the

**Tip:** The secret here is to reduce the time and cost involved in procurement. Often the costs of

buyer's demand.

*Characteristics:*

- Low in value.
- No special quality, safety or environmental requirements.
- Plenty of potential suppliers.

*Strategy:*

- Minimise Attention.

*Tactics:*

- Increase the role of systems.
- Reduce buying effort.

*Actions:*

- Rationalise supplier base.
- Minimise administration costs.
- Minimise negotiation.
- Outsourcing – if cost-effective.
- Automate requisitioning e.g.
  - Procurement card
  - e-commerce
  - systems contracting
  - vendor-managed inventory.

*Purchasing actions:*

Decrease

- inventory (move to supplier)
- Cost control.
- Measurement.
- Attention.
- Paperwork.

Increase

- Blanket orders.
- User accountability.
- Budget control.
- Consignment stocks.
- Procurement cards.

procurement can be greater than the cost of the product or service purchased.

## 1.9 Assurance of supply procurement strategies

The items in the top left-hand quadrant are also low value but there are quality, safety, reliability or environmental considerations and/or there is a shortage of product or suppliers. Included in this category might be goods obtained from a monopoly supplier or items with very tight tolerances and specifications. These items are critical to the operation but are low in cost.

*Characteristics:*

- Low in value.
- Special needs relating to quality, safety or the environment.
- Very limited number of suppliers.
- Failure of performance/delivery results in major interference with operations.

*Strategy:*

- Ensure supply

*Tactics:*

- Reduce the uniqueness of suppliers.
- Manage supply.

*Actions:*

- Widen specifications if possible.
- Increase competition.
- Develop new suppliers.
- Sign long term contracts.
- Consider in-sourcing.

*Purchasing Actions:*

- Decrease
  - sensitivity to price/vulnerability/risk.
  - Number of orders.
  - Payments.
  - Use of leverage.
- Increase
  - Length of contracts.
  - Inventory.
  - Search for alternatives.
  - Price.

1.10

**Leverage procurement strategies**

Bottom right-hand quadrant contains items where there is a relatively small spend but where there is no quality, safety reliability or environmental problems and where there are plenty of suppliers.

*Characteristics:*

- Relatively high in value.
- No special quality, safety, environmental requirements.
- Plenty of potential suppliers.
- Few supplier-related improvement opportunities.

*Strategy:*

- Drive profit (leverage)

Very rarely compulsory in the supply chain. It is also most often used on a project-by-project basis, thus failing to deliver the benefits of leverage procurement.

If competitive tendering is to be used, very strict definitions of requirements and standards are needed. Requirements should also be combined into the most attractive packages to appeal to the supplier to achieve the most competitive prices. This can be done by commitments to multiple projects or an extended time period. The costs and effort involved in effective competitive tendering mean that is rarely the best overall

value procurement route where dealing with enlightened customers and suppliers.

*Tactics:*

- Concentrate business
- Maintain competition

*Actions:*

- Combine requirements into large groupings by time and quantity.
- Promote competitive bidding but avoid fragmentation.
- Exploit market cycles/trends.
- Procurement co-ordination.
- Use industry standards.
- Active sourcing (change suppliers as opportunities arise).
- Outsource carefully.

*Purchasing actions:*

- Decrease
  - Unit price.
  - Supplier knowledge.
  - Security.
  - Inventory.
- Increase
  - Market knowledge.
  - Market exploitation.
  - Risk/flexibility.
  - Short-term contracts.

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### 1.11 Partnering strategies

The items in the top-right quadrant are classified as strategic critical, because they are of high cost and either have significant quality, safety, reliability or environmental factors or are drawn from a difficult market in which there are few supplies and suppliers. As the name implies, these are critical to the overall profitability, competitiveness and well-being of the organisation.

*Characteristics:*

- High in value.
- High in risk (quality, safety, environmental).
- Limited potential suppliers.
- Performance crucial (profitability, competitiveness).

*Strategy:*

- Close supplier management.

There are many guides available for partnering on a project basis including:

*The Partnering Toolkit* available from BSRIA at [www.bsria.co.uk](http://www.bsria.co.uk); *A Guide to Project Team Partnering* from the CIC at [www.cic.org.uk/information/Publications/publications.htm](http://www.cic.org.uk/information/Publications/publications.htm).

The following guide covers longer-term partnering arrangements.

PSL: Partnership Sourcing Guide [www.pslcbi.com](http://www.pslcbi.com)

**Tip:** Remember partnering is a two-way process: if one of your customers was evaluating your business on the same criteria that you are using on suppliers, would you qualify? If not, perhaps you should think again about your minimum standards. Try to put yourself in your potential partner's

*Tactics:*

shoes.

- Increase role of selected suppliers.

*Actions:*

- Thorough negotiation.
- Supplier process management.
- Prepare contingency plans.
- Analyze market/competitors.
- Use functional specifications.
- Do not outsource.

*Purchasing actions:*

*Decrease:*

- Number of orders.
- Competitive price.

*Increase:*

- Frameworks –long term contracts.
- Back to back deals.
- Partnerships.
- Supplier knowledge.
- Cost analysis.
- Contingency planning.

## 1.12 Supplier selection

Whilst the type of relationship required will vary, the needs of supplier selection are similar. Care must be used in the selection of any supplier. When choosing, use current performance, minimum standards, agreed targets and the supplier's attitude as your criteria. Look for a cultural fit.

### *1: Identify candidates*

Compile a shortlist of potential suppliers who provide key products/services and are close enough to your criteria to allow the building of a suitable relationship. Where possible use current suppliers where performance experience already exists.

*Outcome*

- A manageable set of existing suppliers for detailed investigation

### *2: Review candidates' performance to date*

What have they achieved? Do they have good quality systems? Can they be at the forefront of development? Do they enjoy managing change? Do they have a clearly defined business strategy?

*Outcome*

Portfolio analysis references CIPS Best Value Procurement Guidance Note No

1 Aug 2000 see [www.cips.org](http://www.cips.org).

**Tip:** Remember partnering is a two-way process: if one of your customers was evaluating your business on the same criteria that you are using on suppliers, would you qualify?

If not, perhaps you should think again about your minimum standards. Try to put yourself in your potential partner's shoes.

- Evidence indicating which suppliers could perform in the needed relationship.

### *3: Define the criteria for selecting partners*

Use objectives relevant to the procurement strategy to define the minimum criteria that your partners must display. Standards might include:

- Total quality management policy.
- ISO 9000 and ISO 14000 certification or equivalent.
- Implementing latest techniques, e.g. electronic data interchange, just-in-time, etc.
- Access to research and development.
- In-house design capability.
- An ability to supply worldwide (as appropriate).
- Attitude on total acquisition cost.
- Willingness and ability to change, e.g. flexible attitude of management and workforce.
- Excellent personnel management (Investors in People accredited).
- An innovative approach.
- Financial viability.
- Stocking policies.
- Delivery time cycle.
- An acknowledged commitment to their customer (COMPASS Charter).

#### *Outcome*

- A list of suppliers which meet your criteria.
- A list of suppliers which don't, but could meet your criteria.
- A list of suppliers, that do not/will not reach your criteria.

### *4: Assess their management's interest in developing a beneficial relationship*

Identify the key decision-makers and influencers. Do they recognise the opportunity for improvement? Are they capable of taking the partnering relationship forward and accepting that they can play a key role? Remember that people are key. It is people who build trust and make relationships work. Are the people right? Is the chemistry right? Will they put their best people on your account?

#### *Outcome*

- A commitment to the relationship by the supplier's management.

### *5: Understand their strategy*

What are their priorities in the short and long

term? Do they match yours? Are they willing and able to invest to achieve their aims? Are they customer-driven?

*Outcome*

- Agreement that your strategies are close enough to allow a long-term relationship.

*6: Select suppliers*

From this analysis and the results of your supplier communication programme, consider which suppliers are ready, willing and able to proceed with a relationship.

*Outcome*

- Select one, or a few, suppliers with whom you will build relationships.

*7: Additional comments for partnering relationships*

Remember that selecting partners should be a very rigorous process as both partners will grow to rely on each other's performance. The time taken in selecting and developing relationships must be appropriate to the positioning of the product or service in the risk/value chart. The higher up and the further to the right, the more time should be committed.

Remember also that partnering relationships take a lot of management time to develop. Do not threaten the success of the programme by attempting to launch too many at once.

### 1.13 Working together

Agree targets for both you and your potential supplier. Define performance targets, which could be timeliness, customer satisfaction and so on. Keep them simple and easy to measure. Publish these targets to all your potential partners, and then measure them. Keep them under continuous review.

Remember that a very significant part of a supplier's costs are affected by customers' behaviour. Work together with your supplier to understand the drivers of cost to each party. Where cost improvements are targeted ensure that both parties meet their obligations.

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### 1.14 Realising the improvements

The improvements which can arise from integration of the supply chain are substantial and manifold. The establishment of a new relationship cannot bring forward all the improvements at once.

The customer and supplier should identify those which they wish to pursue and categorise them by importance and ease of implementation and then pursue them.

At the end of this Toolkit is a chart identifying many of the improvements which can be pursued

**Tip:** The most common reason for not achieving the true improvements available from supply chain integration is the failure to rigorously identify and pursue the changes necessary for their implementation.

Where identified, specific links to other guidance are provided on the improvements cart.

Specific guides to achieving some of

be in a customer/supplier relationship. The list is not exhaustive and should be used only as a guide.

these improvements are available on the **COMPASS website**:

Other guidance is included in many of the partnering and supply chain guides available. These include:

- The Partnering Toolkit available from **BSRIA**.
- **A Guide to Project Team Partnering from the CIC**
- **Construction Best Practice Factsheets**

**1.15 Supplier perspective**

When considering risk factors and the appropriate procurement strategy for a product it is essential to look at the supplier's side of the relationship. The following gives some guidance on the supplier's perspective.

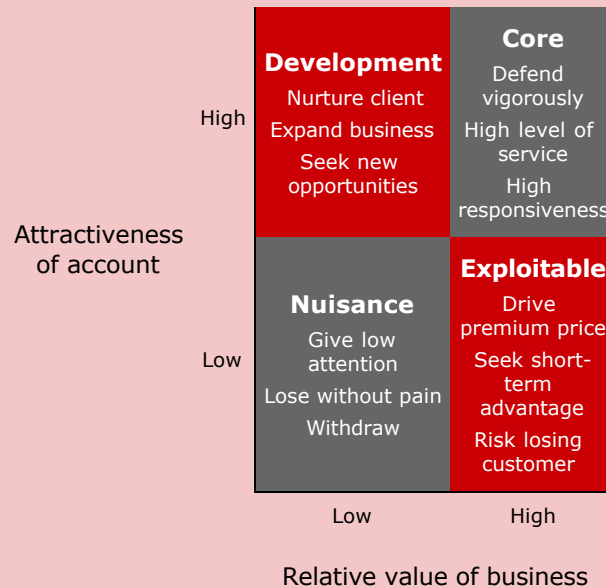
A specific guide to partnering from a supplier's perspective is available on the **Partnership Sourcing Website** at

**1.16 Analysis for Supplier / Customer Relationships**

Like the customer/supplier analysis, a similar system has been developed to establish the style of customer relationship which best meets the supplier's specific objectives.

Note that here we are seeking to categorise customers according to their levels of attractiveness and relative value.

Again, each of the four quadrants are given names that reflect how they might be managed:



Courtesy of **PMSS Consultancy Group**

*Nuisance accounts*

Those customer accounts that are of relatively low value and where the account is in any case not very attractive.

The supplier therefore might be expected to show little interest or support for the account. In fact the supplier may want to get rid of it either by benign neglect or a real determination to withdraw.

*Development accounts*

Those accounts which, although being of relatively low value, nevertheless offer business that is attractive to the supplier. An example of this might be where a supplier has gained a small toehold with a 'blue chip' customer and sees the opportunity to gain more valuable business at some future date by virtue of this relationship.

*Exploitable accounts*

In this quadrant the supplier may have a high volume of sales, which forms a substantial part of his/her business, in an account that is not very attractive. The reason for this could be that the contract is not truly profitable or that the supplier is required to operate under unfavourable or uncertain conditions due to location or other factors, such as onerous contract terms.

*Core Accounts*

This business is of highvalue in an attractive account. The supplier will regard this as the bedrock of his/her business portfolio and would be most concerned if it was lost or reduced in any way.

In this situation the supplier may be expected to provide these customers with a high level of service and attention and to be seeking every means of ensuring the business is retained while seeking to increase profitability in a low-profile manner. Such a supplier is likely to be receptive to suggestions of strategic alliance and other ways of locking in to the customer.

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**Benefits available from improved procurement**

Function	Improvement	Assurance of Supply	Process	Leverage	Partnering	Specific Guidance Check also the <a href="#">COMPASS website</a> for additions
Financial						
	Cost reduction (in all areas of business)		x	x	x	
	Cash flow improvements		x		x	
	Reduced warranty costs	x			x	
	Reduced legal costs	x	x	x	x	
	Improved trading strategies				x	
	Stable and predictable business environment	x			x	
Commercial						
	Improved predictability of cost	x	x	x	x	
	Improved predictability of timescale	x	x	x	x	
	Reduced timescales				x	
	Improved safety				x	
	Improved repeatability	x	x	x	x	
	Implementation of 'lean construction'				x	CBP Factsheet
	Continuous improvement		x		x	
	Increased capacity				x	
	Elimination of duplication	x	x	x	x	

	Improved quality	x			x	
	Improved flexibility and ability to respond to changes				x	
	Pricing stability and consistency	x	x	x	x	
	Better planning	x	x		x	
	E-commerce	x	x	x	x	
	Transaction cost reduction	x	x	x	x	
	Simplify procurement process	x	x	x	x	
	Reduce waste through reducing design duplication	x			x	
	Improve product through access to in-depth technical knowledge				x	
	Share market intelligence				x	
Product						
	Reduce time to market for new products				x	
	Increase innovation				x	
	Design and supply optimum 'solutions' based on mutual knowledge				x	
	Ability to provide 'fit for purpose' solutions				x	
	Repeatable solutions	x	x	x	x	
	Shared product design and development				x	
	Increase standardised solutions				x	
	Increase off-site fabrication and assembly				x	
Logistics						CBP Introduction to Logistics
	Lead-time reduction	x	x	x	x	
	Reduce stock holdings		x		x	
	Improved site co-ordination		x		x	
	Simplify procurement process	x	x	x	x	
	Minimise site congestion	x	x		x	
	Avoid vehicle queuing	x	x		x	
	Minimise storage on site	x	x		x	
	Reduce packaging				x	
Relationship						
	Mutual improvement strategies				x	
	Easier and more pleasant business environment				x	
	Regular meetings and mutual understanding				x	
	Strong, stable, sustainable relationships				x	
	Transform supply chain into value chain				x	
	Ability to maximise mutual leverage up/down whole supply chain			x	x	
	Improved sharing of management information				x	

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