



# **Collaborative Supplier Relationships Cut Supply Risks**

**by Brent Dawkins**

Director of Product Marketing, QAD

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Global Manufacturing Industry

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# COLLABORATIVE SUPPLIER RELATIONSHIPS CUT SUPPLY RISKS

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## RETHINK SUPPLIER RELATIONSHIPS

With pressure to cut costs, manufacturers are realizing the benefits of tightening relationships with suppliers to enhance sourcing efforts, better manage the procurement of goods and reduce supply risks. Through [improved supplier collaboration](#), manufacturers are eliminating non-value-added activities and jointly focusing on opportunities for continuous improvement.

This means rethinking supplier relationships. Companies need more than a loose combination of available suppliers. They need a responsive and flexible strategic network that responds instantly to market volatility and changing customer demands. They need better coordination within the enterprise and better collaboration with supply chain partners. They need to increase the availability and visibility of critical sourcing, performance, orders, schedules, shipments, invoices and other information with strategic suppliers to avoid the risk that an inbound supply issue will disrupt their business.

Effective collaboration requires the [real-time exchange of information](#) between manufacturers and suppliers. Information needs to [continually flow between multiple departments](#) and hierarchies across manufacturer and supplier.

However, the validity and speed of this information-sharing process are dependent on the use of robust and responsive collaboration processes. Too often, manufacturers still rely on [manually-intensive supplier communication methods](#) like email and phone. According to the [2020 Deloitte CPO Study](#), “Only 50% of procurement leaders surveyed had high or very high visibility into their tier 1 suppliers.”

## SUPPLY RISKS AND COMPLICATIONS

Many manufacturers still rely on outdated processes or fail to understand the role [supplier integration](#) plays in maximizing global supply chain performance. “[Organizations that are thriving](#) had higher visibility into both tier 1 and tier 2 suppliers, were twice as likely to prioritize digitization in their day-to-day operations and seven times more likely to expand their supply bases in response to supply-side vulnerabilities.” Supply chain professionals consistently mention the desire for a single source of truth that allows manufacturers and suppliers to make decisions based on the same set of information. This is unlike the scenarios in which manufacturers rely on manually intensive efforts to exchange procurement information or the case where supply information resides within multiple disparate systems across the manufacturer and supplier. In both cases, advanced, automated collaboration strategies result in more accessible, accurate and actionable information across the supply network.

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# 74%

of procurement organizations report having a current initiative underway to enhance and further develop data, insight and analytics capabilities

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The global and swiftly changing nature of sourcing makes effective procurement management with suppliers and other trading partners more complex. [The Hackett Group CPO Agenda 2021](#) report found that “74% of procurement organizations report having a current initiative underway to enhance and further develop data, insight and analytics capabilities.” Procuring raw materials and goods from international suppliers involves working in multiple languages and

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meeting local regulations, resulting in longer cycle times. Relying on manually intensive procurement and supply chain processes increases risk and the likelihood of stock outages. Multiple risks exist for manufacturers relying on manual and outdated processes:

- Carrying too much inventory to address potential supply disruptions
- Excessive premium freight charges to meet customer delivery expectations
- Inability to [accurately track and trace](#) purchase orders, shipments, receipts and invoices
- Mismanaged documents and processing errors leading to slow cycle times
- Inefficient procurement workflow and processing causing unproductive supplier relationships
- Lack of process alert capabilities resulting in costly responses to unexpected supply disruptions
- Inability to accurately measure and track supplier performance

## RESPONSIVE AND EFFECTIVE COLLABORATION

Trust, transparency and aligned objectives are keys to successful collaboration with supply trading partners. Manufacturers and suppliers must come together, put their desires and issues on the table and have a transparent conversation about what both partners need to effectively maintain and grow their respective organizations.

By working together, costs can be reduced for all parties involved and margins protected without relying on product price increases. Key capabilities for responsive and effective supplier collaboration include:

- **Supplier Self-Service** – With a [self-service portal](#), suppliers around the globe can get answers to questions on their own, 24 hours a day, 365 days a year, without intervention from the manufacturer. This should include information about inventory, schedules, purchase orders, shipments, [Kanban](#), invoices, bills of material and more.

## COLLABORATION PAYS OFF

A global automotive manufacturer didn't have 24/7 real-time information sharing with their 22 suppliers. This lack of communication often caused problems with inventory control overages as well as shortages, and the timely completion of customer orders. Procurement was done manually in a spreadsheet. Forecasts were sent to suppliers but not updated in real time. This meant changes and fluctuations were not communicated consistently causing problems with parts not coming on time, unknown dates of dispatch and lack of information on whether suppliers were sending partial or full quantities.

The manufacturer deployed a [supplier portal](#) that facilitates real-time communication across the supply chain by extracting key inventory, order and related data and making it visible to suppliers via secure internet access. It is a cloud-based solution that can integrate with any ERP whether the suppliers are cloud-based or on-premises.

The results of improved supplier collaboration for this manufacturer include:

**INCREASE IN INVENTORY TURNS FROM 40 TURNS TO 70**

**25% REDUCTION IN INVENTORY AND THE ELIMINATION OF SHORTAGE/OVERAGE PROBLEMS**

**90% REDUCTION IN MISSED DELIVERIES**

**DROP IN PREMIUM FREIGHT COSTS FROM ONE-TWO SHIPMENTS PER MONTH TO ONLY TWO IN EIGHT MONTHS**

**FASTER PAYMENTS AND ADHERENCE TO CREDIT TERMS WITH STREAMLINED INVOICING PROCESSES**

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- **Alert and Event Management** – Automatic alerts should notify buyers, planners or other supply chain stakeholders of any issues requiring immediate attention or further investigation. This provides a more rapid response to unexpected supply disruptions and the ability to reduce expediting costs.
- **Lean Supply Processes** – Effective collaboration will support a variety of procurement methods including discrete, sub-contract, non-inventory items and drop shipment purchase orders, VMI and Kanban.
- **Performance Measurement** – Track and report supplier performance against defined metrics and key indicators, enabling constant monitoring and dialogue with suppliers about quality and performance.
- **Internationalization** – With suppliers located around the globe, any supplier collaboration solution should include multinational, multi-currency and multi-language capabilities.
- **Enterprise Integration** – Supplier collaboration and portal solutions should be quick and easy to deploy and require little involvement by information technology teams. For integration with key enterprise systems, a solution should have pre-built adapters that synchronize data with existing ERP and other enterprise systems, eliminating the need for costly software development efforts.

## BOOST DIGITAL SOURCING EFFORTS

Manual sourcing processes are labor-intensive, time-consuming and outdated. Procurement professionals end up spending way too much time identifying and selecting preferred suppliers with manual processes that could benefit from digital transformation.

It's common for manufacturers to manage sourcing activities with a mix of spreadsheets, emails, phone calls and buyers' memories to track hundreds of supplier details. The resulting issues from this reliance on manual efforts include a lack of process governance and overlooked supplier insights. The missed opportunities for manufacturers include an inability to identify the best suppliers with the best overall price, accurately monitor supplier performance and enhance supplier development that could add business value.

By automating sourcing activities and boosting digital efforts, manufacturers can efficiently and accurately select the lowest cost and optimal source of supply for the many raw materials, products and services they procure. Automation removes the guesswork and overreliance on buyer memories to assess and compare costs, quality, capacity, services and other important factors associated with a variety of suppliers. This helps ensure that a standard sourcing process results in the right contracts with the right suppliers.

## DIGITAL SOURCING DELIVERS BENEFITS

An independent study from the Würzburg University and HTWK Leipzig in Germany shows:

### AVERAGE PROCESS COST REDUCTION BY:

- 14% using Sourcing/Tendering solutions +
- 9.4% leveraging Auctions solutions

### AVERAGE UNIT PRICE REDUCTIONS BY:

- 9.5% using Sourcing/Tendering solutions +
- 10.6% leveraging Auctions solutions

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## STRIVE FOR HOLISTIC SUPPLIER RELATIONSHIPS

Manufacturers who strive to build a more holistic relationship with their suppliers must commit to collaboration on a day-to-day basis and treat it as a vital step in building trust with the supplier ecosystem. Collaborative processes transform the transactional landscape into two-way access and a mutually beneficial relationship. This builds a more efficient and effective manufacturer-supplier partnership that lowers inbound supply costs and improves supplier performance. Suppliers gain from accurate and timely access to order, shipment, schedule, invoice, inventory and other related information. Manufacturers benefit from a more agile approach to supplier collaboration resulting in improved supply chain responsiveness, enhanced data quality and better supply chain decisions.

Lower procurement costs, improved operational efficiency and greater customer satisfaction are just a few key measurable gains of process collaboration that span manufacturer and supplier organizations. More cooperation during day-to-day supply chain operations, as well as quicker responses to changing orders and schedules benefit both parties. Higher efficiencies drive business benefits for both the manufacturer and supplier including:

- Reduce [inventory investment](#) without risking material shortages and downtime
- Eliminate processing errors by replacing manual methods with digital communication
- Lower procurement costs with supplier self-service and proactive alerts
- [Improve supplier performance](#) with quicker and easier access to inventory, order, shipment and invoice information

## WHO CAN BENEFIT MOST FROM AUTOMATED SUPPLIER COLLABORATION?

According to [Deloitte's Global Chief Procurement Officer Survey \(2018\)](#), only “22% of procurement leaders believe they are excellent business partners contributing significant strategic value.” That leaves a lot of room for improvement. Companies that seek continuous improvement not only cut costs but gain competitive advantages.

Which manufacturers are best suited to capitalize? Those that:

**RELY ON MANUALLY INTENSIVE PROCUREMENT PROCESSES**

**HAVE A HIGH NUMBER OF SUPPLIERS AND/OR PARTS**

**REQUIRE FREQUENT REPLENISHMENT**

**EXPERIENCE LATE SUPPLIER DELIVERIES OR POOR SUPPLIER PERFORMANCE**

**FACE EXCESSIVE INVENTORY LEVELS, OBSOLESCENCE OR MATERIAL SHORTAGES**

**LACK EXCEPTION MANAGEMENT AND PROCESS ALERT CAPABILITIES**

**INCUR EXPEDITED FREIGHT CHARGES TO ADDRESS UNEXPECTED SUPPLY DISRUPTIONS**

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- Cut production delays by ensuring timely delivery of material through accurate and automated receipt management
- Increase order fill rates and procurement team productivity
- Decrease error rates with full error-correcting techniques and accurate labeling
- Better control supply chain risk with greater [inventory accuracy](#) across complex warehouse and space management operations
- Improve cash flow resulting from quicker payment cycles
- Resource savings by automating business processes
- Increase revenue with more productive customer support and enhanced supplier performance
- Lower costs by avoiding service level agreement penalties
- Speed onboarding of newly approved suppliers

## SUMMARY: REDUCE SUPPLY RISKS

Manufacturers and suppliers need to function in a symbiotic manner and ecosystem to reduce supply risks. As separate entities that rely on each other for survival, the operational performance of one party directly impacts the other supply trading partner. As a result, manufacturers and suppliers are relying more often on [digital collaboration solutions](#) to better leverage interconnectivity for the benefit of both trading partners. Additionally, manufacturers gain insights that can be considered during the sourcing process to confidently select the right supplier and reduce risk across the supplier lifecycle.

In order to do so, manufacturers and suppliers must have visibility into their own supply chain operations and seamlessly share critical information with their partners. This requires a move from the old model of manually-intensive communication methods that impede information flows to a digital, cloud-based solution where trading partners gain access to real-time data. By gaining and sharing insights into sourcing, procurement and supply chain information, manufacturers can lower procurement costs, mitigate supply risks and improve [supply chain performance](#).

For more information on how QAD can help your company, **contact QAD** at +1-805- 566-6100 or email [info@qad.com](mailto:info@qad.com).



**QAD**

Tel: +1 805 566 6100  
[www.qad.com](http://www.qad.com)