

AT THE INTERSECTION OF SUPPLIER DEVELOPMENT AND SUPPLIER DIVERSITY

A model for manufacturing, logistics, and distribution suppliers

By David J. Burton MCRP, AICP

The case for supplier development of diverse suppliers is compelling. While manufacturing, logistics, and distribution (MLD) suppliers can constitute as much as 80 percent of the value in the supply chain networks of large international corporations, they are often met with a supply chain strategy targeted at reducing the number of suppliers.

While this is a valid way to lower transaction costs, improve supply base performance alignment, foster supply chain resilience, enable supplier innovation, and/or implement Industry 4.0 technologies such as automation and data exchange that increase supply chain velocities, it makes supply chain integration increasingly challenging as supply chains mature.

In this context, MLD suppliers must differentiate their competitiveness and demonstrate the measurable, visible capacity for continuous improvement that's essential to a large international corporation's global competitiveness and retention of shareholder value.

While diverse supplier spend is an outcome of suppliers' engagement in supply chains, it is not supplier development. For a supplier diversity organization (SDO) to support supplier development and readiness to compete in supply chains, it must function as a change agent that collaborates with the sourcing and buying organization (SBO) of its chief procurement officer (CPO).

It must also challenge diverse suppliers to develop and present applicable performance and maturity metrics that demonstrate their mitigated performance risks and differentiation. While the definition of supplier diversity is

broadly accepted as "the diversification of the supply base to mirror the evolving consumer base," the definition for supplier development is less focused.

What Is Supplier Development?

The Chartered Institute of Procurement and Supply says supplier development is "closely related to supplier relationship management" and is the "process of working with certain suppliers on a one-to-one basis to improve their performance for the benefit of the buying organization."

Forbes, on the other hand, describes supplier development as "generating a new capability or competency in suppliers ... linked to, although distinct from, performance improvement" toward "developing streamlined processes or the implementation of a new standard."

It can be deduced from these definitions that supplier development is not business development, but instead the development of a path to business development through performance alignment, sustainment, and continuous improvement. What is clear is that supplier diversity is not the same as supplier development.

Supply chain leaders in sourcing and procurement have a fundamental responsibility to monitor and improve the performance of their supply base. It is the corporation's responsibility to:

- Use supplier segmentation to identify the group of suppliers in which performance improvements will yield the greatest value;
- Define supplier metrics that encourage innovation and partnering, including aspects beyond operational performance;
- Deploy scorecards to convey performance expectations and set priorities, and not just measure, but also incentivize, high-performing suppliers; and
- Request and incorporate supplier feedback to identify actions needed from both sides of the relationship in order to improve.

While supplier development does take place in larger corporations through the sharing of performance and



Basic Pull System Elements for Diverse Manufacturing Supplier Supply Chain Engagement

STAKEHOLDER	RESPONSIBILITY	CHANGE MANAGEMENT IMPACT	DMSCA VEHICLE
CHIEF PROCUREMENT OFFICER (CPO)	Provide leadership in the establishment of supplier performance review standards and processes to ensure execution of supply chain strategies and criteria for manufacturing, logistics, and distribution supplier selection; identify short- and long-term procurement opportunities; and appoint CMP coordinator to assist supplier engagement.	Reinforces supplier's interest in, and need for, proactive engagement in the Corporate Mentoring Program (CMP) Supplier Development and Supply Chain Excellence training program.	Strategic Sourcing Executive Leadership Committee (SSEL)
MANUFACTURING, LOGISTICS, DISTRIBUTION SUPPLIER	Proactively develops credible Standard Performance Metrics that demonstrate mitigated performance risk, performance differentiation, and continuous improvement for presentation to the CPO's sourcing and buying organization.	Assurance that performance-differentiating metrics generated through the CMP are reviewed in addition to other vetting requirements, and that suppliers engage and sustain engagement.	CMP Supplier Advisory Committee
SOURCING AND BUYING ORGANIZATION (SBO)	Review supplier-provided Standard Performance Metrics and others as required to meet requirements for CPO-identified short- and long-term procurement opportunities.	Reinforced by the CPO's vision and directives, develops and implements practices to engage with performance-driven suppliers.	SBO Advisory Committee
SUPPLIER DIVERSITY ORGANIZATION (SDO)	Advocates supplier-proactive engagement in supplier development system and affects coordination with inside SBO customers.	Reinforced by the CPO's vision and directives, develops and implements practices to connect suppliers with the SBO for performance-driven discussion.	SDO Advisory Committee

Source: DMSCA, 2018

procurement opportunity information, it may not always occur with diverse suppliers when the lead conversation typically surrounds who they are, not what they are. The question then becomes, how can diverse suppliers better position themselves as sought-after strategic suppliers?

Engagement Is the Secret Sauce

The definition of supplier development is not as important as the engagement of suppliers and customers. This happens through either of the two classic marketing engagement models—"push" and "pull." In push marketing, the idea is to promote products by pushing them onto people. In pull marketing, on the other hand, the idea is to establish a loyal following and draw consumers to the product.

In the context of supplier diversity, push activities would include networking events, tabletop presentations, poster walks, etc. Pull activities would include drawing customers to suppliers that not only meet desired performance standards and practices, but also convey their value in precluding supply chain costs that can result from supplier performance failures.

A Model for Supplier Supply Chain Engagement

The pull engagement model is at the crux of the Diverse Manufacturing Supply Chain Alliance's (DMSCA's) Corporate Mentoring Program (CMP) Supplier Development and Supply Chain Excellence training and performance certification system. It works to overcome the challenges of

communications, training, and assistance in fostering trust between suppliers and customers, addressing the unique performance requirements of industry sectors such as pharmaceuticals and medical devices, food and beverage, electronics and semiconductors, and automotive. Suppliers' proactive performance alignment and adaptation to the customer's unique operational requirements are the essence of the CMP pull model.

Key stakeholder responsibilities and change management outcomes of a pull system are illustrated in the chart.

The intersection of supplier development and the supplier diversity organization is at the top of the food chain, where thought-leading CPOs and other supply chain executives must be committed to actions that reinforce diverse suppliers' need to change, as well as their engagement in a supplier development and supply chain excellence training system that brings customers to them.

Additionally, diverse suppliers must take responsibility and not allow their customers' minimum requirements to become their maximum development standard. They must proactively communicate their mitigated supply chain performance risk, performance differentiation, and commitment to continuous improvement. Ultimately, customers invest in suppliers who invest in themselves.

Learn more at DMSCA2019: The Power of Supplier Development and Innovation, Andaz Scottsdale Resort and Spa, Feb. 27–March 1, 2019, Scottsdale, Ariz. Visit www.dmsca.us for information. ◆