Increasing value through managing supplier relations
- A study at Corporate Sourcing Saab AB

Oscar Falkenberg and Johannes Nilsson
Department of Industrial Management and Logistics, Lund University
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Companies can benefit considerably from centralising purchasing of indirect material. By reducing numbers of suppliers and consolidating volumes great cost savings can be identified. But how should these identified cost savings be realized? A study has been made which shows how suppliers of indirect material should be handled and how the company should be organised internally in order to maximise delivered customer value and to certify contract compliance.

Today to be able to compete on a market with intense competition, rapidly changing technologies and evolving customer requirements companies have to continuously improve their efficiency. To get a competitive advantage they have to focus on their core competencies. This concentration on core competencies together with focus on the supply chain has allowed purchasing to play a larger strategic role in the firm.

Purchasing is not just negotiating a deal with suppliers but involves managing supplier relationships so that the company’s overall business strategy is supported. Due to the implementation of improvement programmes in engineering, manufacturing and logistics management many companies feel the need for improved supplier relationships. Purchasing and supply managers are moving away from their traditional, operational roles to more strategic roles where focus is on getting better performance from suppliers and the active management of supplier relationships.

Saab has like several other companies recognised the benefits combined with coordinating purchasing, reducing number of suppliers and consolidating volumes. The company is going through a reorganisation where purchasing of indirect material is being centralised. This means that sourcing of indirect material will be conducted centralised for the entire organisation. Call offs will still be done decentralised in the organisation using an e-procurement tool. When sourcing of indirect material is done for a whole organisation a good sourcing process underling that great agreements are signed with the suppliers becomes essential. At Saab such a process has been implemented and great cost savings through signing good agreements with few suppliers have been identified. However an efficient sourcing process resulting in good agreements with suppliers and an e-procurement tool for call offs is not enough to reduce costs, something has to be done to ensure that the potential cost savings are realised.

Prior working with supplier relations and making sure that contract quality is being reached has not been prioritised when indirect material is concerned. When greater volumes

are consolidated the value for each contract will increase and it becomes more important to work with supplier relations to certify contract quality. Saab sees a need for a standard procedure how to manage relationships evolving through the contracting of suppliers. In order for the identified cost savings to be realised it becomes important to change the buying behaviours at Saab so that the new contracts are being used and maverick buying eliminated. In order to certify contract compliance the internal work at Saab will have to be organised.

In order to get an overview of the current situation at Saab, several profound interviews with several strategically knowledgeable and significant persons were conducted. A survey was sent out to 34 suppliers and to their responsible purchaser at Saab in order to investigate Saab’s current relationship with their suppliers. Furthermore, a considerable amount of literature has been studied in order to get a deep understanding about procurement and supplier relationships.

Since a company has to deal with several different suppliers it is important with a structured supplier base and to develop differentiated supplier strategies. To get highly involved with a supplier is resource-intensive in terms of time and management and can be justified only when relationship benefits exceed the costs of extended involvement. One common way of differentiating suppliers is to use the Kraljic matrix. Kraljic has combined two variables; the strategic importance of the purchase and the complexity of the supply market or supply risk, in a two-dimensional matrix with four squares. Each square represents a group of products/suppliers with different interest to the company; non-critical, leverage, bottleneck and strategic.

The literature often implies that indirect material should be classified as non-critical in the Kraljic matrix. Arm length’s relations are common with these suppliers which is characterised by lack of trust and reluctance to share information between the buyer and supplier. Purchasing is done through competitive sourcing and the price is of critical importance. Based on the literature it would not be appropriate to use the Kraljic matrix when differentiating suppliers of indirect material since they would all end up in the non-critical square of the matrix.

However the survey and the interviews conducted during this study showed that the characteristics of the suppliers delivering indirect material to Saab vary. Even though most of the suppliers deliver non-critical standard products that account for a fairly low value there are still a few suppliers delivering more critical complex products that account for a significant value. This indicates that Kraljic’s classification matrix might be applicable on indirect material as well.

Based on the supplier base at Saab two different approaches how to manage supplier relations have been identified. For the majority of the suppliers, the ones delivering standard products that are less critical, contracts are signed at a corporate level for a shorter period of time. For those suppliers the high

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9 Ibid
competition in the market will by itself guarantee enhanced customer value.

Figure 2 Illustrating how value is enhanced at each renegotiation.

This means that since professional sourcing now is conducted the best contracts will always be signed with the most suitable suppliers. As the agreements are written over a short period of time renegotiation can be done relatively often which guarantees a high delivered customer value for Saab. Each renegotiation will increase the value for Saab since the best possible agreement is signed. This is illustrated in the figure above.

For the strategically important suppliers of indirect material, which are only a few, the low competition in the market cannot guarantee enhanced customer value. These suppliers are contracted for a longer period of time and the delivered value will only be guaranteed through a closer relationship. With those suppliers it is justified to have a partnership relation which means a high degree of involvement, a lot of information sharing and high degree of trust. By working together with the supplier, identifying cost reductions and by sharing costs and benefits the value will increase. This is illustrated in the figure below.

Figure 3 Value is enhanced through continuously cooperation with the supplier.

Based on the theory an arm length’s relation is proposed for standard products but due to the centralisation and consolidation of volumes each supplier becomes more important and therefore needs to be monitored closely. Moreover the implementation of e-procurement and the fact that agreements are signed for at least one year forces Saab to have a deeper relationship with their suppliers. Based on this a relationship is needed that is deeper than an arm length’s relation but weaker than a partnership relation.

Several other relations related to purchasing needs and areas can be identified. Operative alliance is one type of relationship which is based on buying situations such as volume purchase and high purchase value per supplier\(^{12}\). Since the centralisation means that the purchase value will increase for each supplier it is possible to state that this type of relation would be suitable for Saab. Also operative alliance refers to short to middle long agreements negotiated at regular time intervals which corresponds with the situation Saab will have concerning their suppliers for standard products. Consequently operative alliance is the preferred relation Saab should have with their suppliers of non-critical products, the once to the left in the Kraljic matrix. Two different relations that Saab should have with their suppliers have been defined, however a need for a third way of handling suppliers of indirect material has been identified, hence a third relation. Among the suppliers delivering non-critical items conditions have been identified requiring a greater degree of involvement. Saab is a defence orientated company and delivers among other things critical products to the Swedish defence. Therefore certain products/services require security clearance in order to be used at Saab which means that a greater involvement with the suppliers will be needed. Some suppliers of indirect material will offer a great number (thousands) of articles through the e-procurement tool SIV\(^{13}\) and since every change in price or product substitutions have to be attested by Saab it will require more resources. Other suppliers might have problems living up

\(^{12}\) Jonsson, S. (1998) *Den strategiska försörjningsprocessen med fokus på upphöjgnaden av företagets leverantörsbas*  
\(^{13}\) Saabs inköpsverktyg
to the contract, for example problems with delivery performance or product quality. In such a situation resources should be assigned in order to solve the problems together with the supplier. This is situations when the operative alliance relationship needs to be deepened and an extended alliance will be needed, hence more resources need to be assigned for supplier management.

Three different approaches towards the suppliers at Saab have been presented. In order to identify which type of relationship Saab should have with each supplier, a relation-matrix has been developed, based on the theory, and the current situation at Saab, see figure 4 below. The purpose of this relation-matrix is for Saab to be able to differentiate their suppliers so that they know which type of relation is suitable for the different suppliers.

Operative alliance
The characteristics for suppliers that should be managed with an operative alliance approach are that they deliver standardised products, operate in a market with high competition and deliver products that often have a low impact on Saab’s overall business. The relations with those suppliers are of low complexity and the suppliers can easily be exchanged. The value that these suppliers represent has been identified to be fairly low. Even though suppliers might be identified representing a higher value they should still be managed with an operative alliance.

Extended Alliance
As mentioned before, in some cases there is a need for additional resources in order to handle suppliers efficiently due to a higher complexity in the relation with the suppliers. Characteristics for suppliers in an extended alliance are for example when security has to be taken into consideration or when the product catalogue in SIV is complex. Sometimes there is a need for products to be abatable to existing products which limits the choice of supplier. Suppliers in an extended alliance can not be exchanged as easily as in the operative alliance relationship.

Partnership
The partnership relation requires the highest degree of involvement and is characterised by a low competition in the market, the products are less standardised and have a greater impact on Saab’s overall business. The complexity in the relation is often high and it is hard to exchange these suppliers. These suppliers often account for a high purchasing value.

When a supplier is contracted at corporate level a so called manage team is established with the objectives to make sure that the delivered value from each supplier is maximised and that everyone at Saab is using the contracts so that the identified savings can be realised. This study showed that roles, tasks and areas of responsibility within those teams are not clearly defined and the way of communication is not clear. People within those teams do not always know who is responsible for the contract and they are not willing to take on the responsibility for the whole organisation which becomes essential when central contracts are signed.

![Relation-matrix](image_url)

**Figure 4 Relation-matrix.**

The design of the relation matrix above is carefully developed by conducting tests on several current suppliers taking Importance of purchasing and Complexity of the supplier market into consideration. Both Kraljic’s classification and the conditions at Saab have been taken into consideration when developing this matrix.

In order to maximize customer value Saab should have three different kind of approaches towards their suppliers; Operative Alliance, Extended Alliance and Partnership.
In order to maximise the total delivered value from each supplier and to certify contract compliance it is suggested that Saab establish three different manage teams, one for each relation, with clearly defined roles, tasks and responsibilities. The roles identified in the different manage teams are essential in order to maximise value for Saab.

Common for the defined manage teams is the Core Team consisting of a Key Account Manager, a Contract Manager and a Controller. The Core Team is overall responsible for the supplier relation and will have knowledge of how well things work with the supplier as well as monitoring the contract compliance at Saab. The Core Team is also responsible for initiating supplier evaluation and follow up meetings with the suppliers as well as being updated on the commodity group concerned.

To be able to spread information regarding new contracts and monitoring the suppliers’ performance and contract compliance a Reference Group, with members from the different business units, will assist the Core Team. In the situations when an extended alliance is suitable, a Contract Supporter will be assigned as an additional resource with the aim to support the Core Team. The few situations when a partnership relation is recommended, there is a need for Saab and the supplier to get involved on a corporate level. Together they should draw up common goals and strategies. The person at Saab with this responsibility is called a Senior Manager. Since suppliers characterised as partners often represents a high economic value there is a need for a Business Developer, someone with broad knowledge about the Saab organisation and the commodity, to be assigned in order to find measures in the Saab organisation and enlighten them in order to identify cost reductions.

In conclusion, a need for differentiating the supplier base for indirect material has been identified. Even though this study is based on the current situation at Saab it is believed that the findings made will be of great importance for other companies as well. The situation at Saab, where the purchasing function is centralised, fewer suppliers are used and call offs are made through an e-procurement tool, is to be found in several other companies.

It is suggested that in order to maximize customer value differentiation of the suppliers should be done using the proposed relation matrix. By using this matrix the suppliers will be divided into three different relations. By establishing manage teams for each of these relations with clearly defined roles, tasks and responsibilities it will be possible to certify contract quality and contract compliance, hence realising identified savings.


