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INSIDE SUPPLY MANAGEMENT

Features

Damage Control and Prevention

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When a relationship with a supplier is in danger of faltering, confident and proactive supply management leadership can save the day.

At one time or another, we have all encountered challenges with a supplier — it is just a part of doing business. Perhaps we were not happy with the way they completed a project, or someone in our department had a personality conflict with a resource on the supplier's team, or we continued to receive costly change orders for items that were initially thought to be in scope ... the reasons will vary greatly. When issues with suppliers do occur, the outcome or resolution can be dependent on how you, as the supply management leader, handle what can be a delicate situation. As our position continues to become more strategic to our company's success, the measure of our supply management organization's success will rest with how well we manage our supplier relationships.

Fortunately, there are tangible ways to repair damaged relationships once a setback has occurred — and ways to be proactive and avoid performance, cost and personnel issues from the outset.

Performance issues often stem from the supplier not living up to its contractual obligations or not delivering as promised on the agreement. In some instances, an issue might arise from an honest misunderstanding between us and our suppliers regarding the deliverables. If a contract is in place, performance issues tend to be the easiest to resolve because there is documented proof of the obligations that are expected to be met by both parties. Of course, the presence of a contract alone does not mean there will always be an easy resolution, but if you have documented proof that the supplier is not meeting service levels from the contract, the evidence becomes hard to dispute when held up against a written contract.

Cost disputes are often harder to resolve without a very clear statement of what is considered in and out of scope. Without a detailed scope statement, change orders can become the norm as the supplier performs work out of scope from the initial contract, and then charges you for it. These disputes can be difficult to resolve because the supplier may have the ability to cease work in the middle of a project and leave your company at its mercy. This is not an ideal outcome, but many senior supply management executives have surely seen it happen on more than one occasion.

Personnel issues can pop up at any time, and sometimes can be resolved quickly by splitting up the incompatible parties. The supply management professional usually has the ability to refuse or replace a particular team member if he or she feels the person provided by the supplier is not adequate. Two common reasons that one might want to work with a different individual are the challenges of working with inexperienced staff that are learning on the job, or flat-out personality conflicts. Whatever the reason, personnel issues not only strain the relationship between the organizations, they also affect the

productivity of the rest of the team. Tension between team members can create a toxic environment for everyone.

It should be fairly easy to identify when there is a concern that needs to be addressed: You may see that the performance of the team is growing worse, the quality of work is diminishing, time lines and milestones are being delayed, or spats are taking place among team members. Senior supply management executives need to be alert and watch for signs of these issues appearing in your supplier relationships. Like many challenges in business, the earlier you are aware of the issue, the easier it will be to resolve.

Taking the Correct Course of Action

Once an issue has been identified, the following process can be instrumental in creating a solution that works for all parties involved.

Identify the type of problem. It's not enough to simply pinpoint the issue itself; the first thing you need to do is identify the type of problem that is occurring. In some cases, this consideration of scope can be overlooked as a team rushes toward a quick resolution of the problem. By categorizing the issue, it should help point you in the right direction for a successful resolution. Is it a problem with the supplier's underperformance, different interpretations of the scope of work or conflicts of personality? Knowing the type of issue allows you to focus on the correct course of action right away. For example, you would be satisfied if a supplier came back into compliance with the agreed-upon service levels in the event of a performance issue, but that would not be a satisfactory resolution to a personality conflict. The specific issue at hand needs to be clearly defined and detailed to avoid any misunderstandings or errors (on behalf of either party) further along in the resolution process.

Negotiation among individuals. Once the issue is clearly identified, you might bring it to the attention of the affected parties and attempt to work it out directly with the people involved. Many disputes get resolved this way, and this is where the most effort may be spent. While it's not an easy thing to do, by being honest and up-front with the other party, you initiate an environment that encourages debate and differing views. At the same time, you create accountability to deal with any issues quickly and effectively. Dealing directly with the source of the problem also creates a stronger, more open relationship between you and the supplier, as difficult subjects can be tackled without the fear of emotion taking over common sense at the time a problem occurs. Using this discussion approach also gives the supplier an opportunity to improve the issue, so it is helpful to have some objective evidence to back up the specific concerns that are being brought to the table.

Follow the escalation path. Hopefully you will have established an escalation path or a chain of command for project issues early on, and included it in the contract. If the individuals cannot resolve an issue themselves, then the issue needs to be escalated up the respective chains for resolution. Sometimes this can be an effective way of resolving an issue because it takes the responsibility away from individuals who work together on a daily basis, thus removing some of the tension that may have crept into the relationship. Any escalation path should go up at least three levels and end with a senior decision-maker within each company.

If an issue cannot be resolved by following these steps, you may need to exercise your termination clause and end the contractual relationship. This will hopefully only be used in extreme circumstances. The key to resolving issues quickly and effectively is to focus on the issues themselves and not the emotions that surround them. Find out the root cause of the issue and deal with it. By removing the issue, much of the emotion will go with it.

Strong Supplier Relationships From the Start

While it's clearly important to understand how to take ownership of any issues that arise and ideally bring them to a mutual resolution, there are ways to be proactive in avoiding some of these issues from the outset. Preventive measures are not difficult to carry out, but they can be overlooked or underestimated in a fast-paced business environment. To help ensure the supply management team is operating from a proactive mind-set, consider integrating the following three measures to help your organization deal with disputes more objectively and easily.

1) Build stronger relationships with suppliers. This one should be a no-brainer, but surprisingly, some organizations are still struggling to figure out how they might go beyond the transactional level with

their suppliers. It is important to learn about the suppliers you regularly work with and develop strong relationships with them. Having a good rapport with your counterparts makes it easier to openly discuss issues from a more direct, person-to-person approach. This will not only help repair a relationship when it begins to falter, but it may hopefully lead to improved performance as you and the supplier become partners looking for mutual ways to improve results.

2) Put a formal agreement in place. In certain situations, some companies might begin a contract without any formal paperwork, but this is only possible with companies that have a strong history together and an exceptionally high degree of trust. In today's litigious world, however, these types of agreements are not advisable in most cases. It is necessary to always have a formal agreement in place that outlines the expectations, the terms and the accountabilities of the relationship. The agreement should contain a dispute resolution process, a termination clause (for both sides) and clearly documented service levels to be met (among other things). A detailed scope statement is also beneficial to keep the focus on what is expected of the supplier. The worst time to develop a resolution process is in the midst of a dispute, so develop it when the relationship is in the honeymoon stage — after the deal is first signed. The process will be objective and hopefully thorough, because at this stage in the business relationship, neither side expects that this resolution process will ever need to be used. But, of course, when an issue does arise, you need only to follow the documented process that both parties agreed to at the onset.

3) Review supplier performance. Many supply management professionals recommend assessing your suppliers regularly (possibly annually), based on their performance. Consider their ability to improve your business, the state of your relationship and their ability to innovate. Don't be afraid to sever relationships with your worst-performing suppliers. If a supplier has been given an opportunity to improve and it doesn't follow through, why expend additional time and effort on it? Some experts recommend dropping the lowest 10 percent of your worst-performing suppliers every year. After all, it doesn't make good business sense to keep paying a supplier that is constantly underperforming and causing your organization headaches.

The best way to repair a faltering relationship is to do whatever you can to avoid letting it reach that point in the first place. Once you identify an issue, you want to resolve it quickly and with the least impact on company performance and the relationship with the supplier. It is inevitable that problems with suppliers will arise, so how you handle those issues is paramount to your success. No one enjoys having to deal with problems, and we all want business to go as smoothly as possible. Of course, that is never going to happen in the real world in every single situation. So, it is up to supply management leaders to decide which approach your organizations should use: Do we, as a supply management department, want to deal with those issues head-on, or let them linger? Answering that question will determine how successful you will be as an organization.

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