

# The Journey to Effective Supplier Collaboration: Step 1 – Strategy Design

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Initiatives: [Sourcing and Procurement](#)

Companies are looking to increase collaboration with their supply base but often don't know how to get started. This research outlines the key activities that chief procurement officers should follow to design a supplier collaboration strategy.

## Overview

### Key Findings

- Procurement organizations often launch initiatives to increase supplier collaboration without a clear objective that ties to businesswide goals.
- Failing to include internal stakeholders early in the design of a supplier collaboration strategy can lead to misaligned priorities and lack of support.
- With hundreds of key suppliers and limited procurement resources organizations struggle to optimize their supplier engagement activities.

### Recommendations

Chief procurement officers responsible for direct material sourcing and supply chain services looking to increase collaboration with the supply base to reduce costs, increase agility and drive innovation should:

- Define an objective for increasing supplier collaboration by clearly linking its benefits with the key priorities of the business. Reevaluate periodically to ensure continued alignment to top-line and bottom-line objectives.
- Identify essential internal stakeholders that must be engaged in the supplier collaboration strategy by looking at the functions involved in the design, qualification and implementation of a sourcing strategy or those who may be impacted by it.
- Kick-start the supplier segmentation process to prioritize engagement by capturing the key priorities of your stakeholders and creating a shortlist of strategic suppliers to initially focus on.

## Introduction

Business disruptions, such as the COVID-19 pandemic, have underscored the need for closer and more seamless collaboration with the supply base. In light of these events, procurement leaders are looking for increased support from the supply base to optimize costs, increase agility, mitigate risk and ensure business continuity.

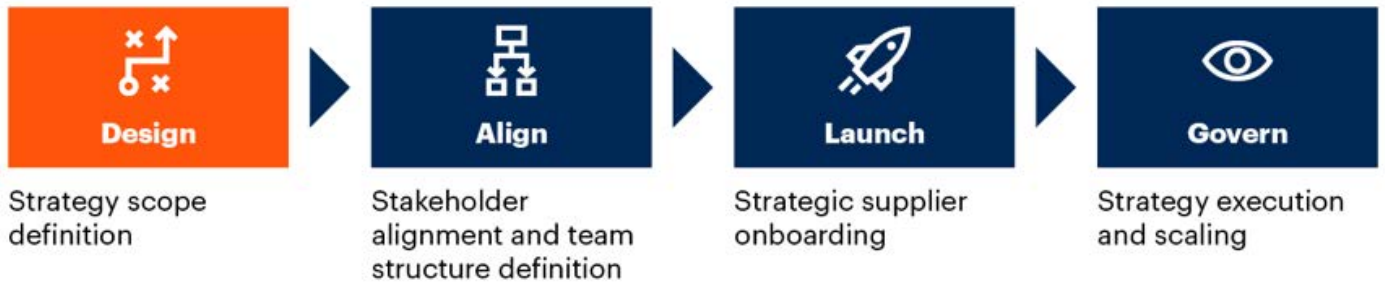
Improving supplier relationships through increased collaboration is one of the top priorities in procurement's agenda, according to Gartner research.<sup>1</sup> Unfortunately, many procurement leaders still struggle to design a clear strategy and to identify specific actions to execute on it. Without this, procurement leaders end up launching supplier collaboration efforts that will often fail due to lack of stakeholder support and misaligned priorities with the business.

Figure 1 shows Gartner's four-step framework to implement a strategy that enables effective supplier collaboration to maximize value for the business. This note outlines the key activities that procurement leaders must follow before reaching out to internal stakeholders for their buy-in. These include clearly articulating the goals for increased strategic collaboration with the supply base, identifying the key stakeholders that must actively participate and kick-starting the supplier segmentation process.

Figure 1. Gartner's Four-Step Framework for a Supplier Collaboration Strategy



### Gartner's Four-Step Framework for a Supplier Collaboration Strategy



Source: Gartner  
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## Analysis

### Define the Objective for Increased Supplier Collaboration

The majority of procurement organizations are likely to pursue a supplier collaboration strategy to evolve how they engage their supply base. This is a consistent trend Gartner has observed, where procurement leaders are looking to shift toward supplier collaboration as a foundation of how they deliver value to their organizations.

Unfortunately, many procurement leaders still struggle to answer one simple question: “What are we trying to accomplish with our supplier collaboration strategy?” Failing to provide an answer to this question, and to clearly highlight the anticipated benefits with one that clearly links the purpose of this initiative to the business’s top priorities will make it hard, if not impossible, for procurement leaders to launch a successful supplier collaboration strategy.

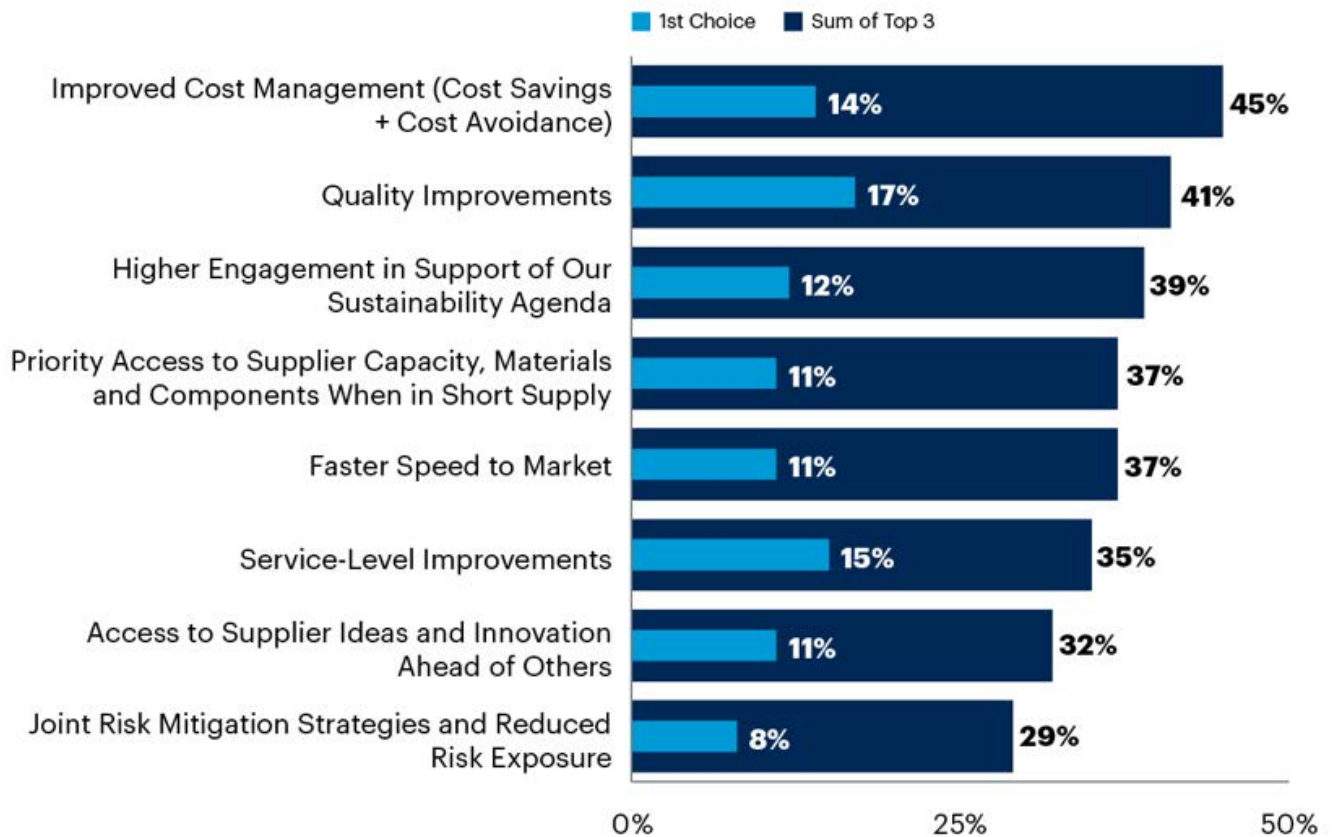
For a supplier collaboration strategy to be successful, procurement leaders must first define the key objective of the initiative and its value proposition. Research shows that only 47% of companies with a formalized supplier collaboration strategy have documented a clear value proposition. However, for those identified as being leaders in supplier collaboration, 90% of respondents confirmed having a documented objective tied to critical business objectives such as risk, cost optimization or customer experience. <sup>2</sup> Gartner survey findings shown in Figure 2 highlight the benefits that respondents have observed from increased supplier collaboration.

Figure 2. Top Benefits of Stronger Supplier Collaboration



## Top Benefits of Stronger Supplier Collaboration

Percentage of Respondents. Sum of Top Three Ranked and First Choice



n = 262; Base: Total, excluding "Don't know" and "We haven't observed any benefit"

Source: 2019 Gartner Procurement's Value Contribution in Supply Chain Survey

Q: What are the top three benefits that your company has observed from stronger supplier collaboration?

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Procurement leaders can use these benefits and the areas outlined below as they start formalizing their objective for stronger supplier collaboration.

- **Cost optimization:** Using a collaborative approach, the focus shifts from price negotiations that hurt supplier margins to one that reduces costs by working with suppliers to improve process and product design. For example, a manufacturer of paint coatings was facing increased pressure to reduce costs in one of its residential product offerings. By approaching the supplier for such materials using a collaborative approach, it was able to develop a new product that standardized raw materials used, eliminated performance overspecifications and met the end-customer requirements with 10% lower costs.
- **Risk mitigation:** A closer relationship with suppliers can pinpoint and reduce risk. Recent Gartner research found that "deeper collaborative relationships with key customers and

suppliers” was the top-ranked strategy to build resilience, with 77% currently investing and 18% planning to do so in the next two years. <sup>3</sup> Proactive risk management can address robustness of quality management systems and regulatory compliance, financial health rating (third-party assessment), and business continuity planning and resilience.

- **Top-line growth from supplier innovation:** Suppliers are constantly looking to develop new products and services to support their revenue growth. However, they often face pushback from buyers who are focused exclusively on price reductions on goods purchased. By increasing supplier collaboration, buying organizations can seek to become a preferred customer and get access to supplier innovation ideas ahead of others. For example, an appliance manufacturer was able to offer consumers an industry-leading warranty on a critical component by partnering with a strategic supplier to launch a new, co-branded product. This resulted in revenue growth for the appliance manufacturer, while simultaneously increasing the supplier’s sales and brand exposure.
- **Responsible sourcing and sustainability:** Many organizations are looking at responsible sourcing as an opportunity to enhance their brand’s value proposition and win customers over. To do this, these organizations are going beyond basic compliance and need to collaborate with suppliers to commit to sustainability goals, such as shifting to clean energy sources or ensuring that their supply chains are free of child labor.
- **Operational process improvements:** Leading suppliers have process expertise that can be leveraged to the buying organization’s advantage. Incorporating suppliers’ expertise in the manufacturing process and new product introduction (NPI) projects, for example, can eliminate unnecessary costs and make processes more efficient, often leading to reducing costs before they are incurred.
- **Preferential treatment from suppliers:** Stronger supplier collaboration can help companies gain access to perks, such as faster deliveries, early access to new product innovation, preferential pricing and priority access to capacity allocation.

## Identify Internal Stakeholders to Engage Early in Your Supplier Collaboration Strategy

The second action in the strategy design phase is to identify internal business partners who will play a critical role in the execution of the supplier collaboration agenda. Gartner research has found that the lack of cross-functional collaboration is the top barrier that leaders face to achieving their company and supply chain goals and objectives. <sup>4</sup> Regardless of what the objective(s) for increased collaboration is, one thing is certain – stakeholder support and active engagement are needed to succeed (see [Effective Change Management Starts With a Stakeholder Analysis](#)). Without it, resources will not be allocated, supplier innovation ideas will

often be ignored and stakeholders will independently choose to partner with different groups of suppliers, according to how these can support individual priorities.

Internal stakeholders to be considered during this phase are those that represent functions involved in the design, qualification and implementation of the supplier collaboration agenda, or those who may be impacted by it. It is important to highlight that stakeholders to be involved will be quite different depending on the type of supplier spend being addressed (direct versus indirect). Consider the following general guidelines:

- **Direct materials:** When looking at increasing collaboration with suppliers of direct materials, the stakeholder functions involved will often be the same, regardless of the category of direct spend being addressed (see Figure 3). For example, adoption of a supplier innovation idea for a new product needs the approval of product management to ensure it meets customer expectations. It also needs to be evaluated by the R&D, engineering and quality teams, in terms of product capabilities and performance. Operations will likely be involved in the qualification of a new production site as well as capacity assessments.
- **Indirect materials and services:** When looking at increasing collaboration with suppliers of indirect materials and services, the stakeholder functions to involve will often vary, depending on the category of spend being addressed. For example, to adopt a new process innovation from a supplier of capital equipment for a production site, the main stakeholders to include would be the local manufacturing operations team, finance and perhaps IT.

Figure 3. Common Stakeholders to Engage in a Supplier Collaboration Strategy for Direct Materials



### Common Stakeholders to Engage in a Supplier Collaboration Strategy for Direct Materials

Include	Include as Needed	Not Essential to Include
Quality	Sales	Legal and Compliance
Product Management	Logistics	Marketing
Technology (Engineering, R&D)	Supply Chain IT	Other
Manufacturing (Operations)	Finance	

Source: Gartner  
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## Kick-Start the Supplier Segmentation Process to Prioritize Engagement

The purpose of implementing a strategy for increased supplier collaboration is to obtain greater value from the supply base, beyond traditional buyer-supplier relationships focused on cost management. The term “value” may have a different meaning for different companies and even different groups within the same company. For this reason, engage with the internal stakeholders identified above and request their feedback on what supplier capabilities are critical to support their objectives. For example, engineering might value suppliers with the capability to do product reliability testing on their behalf to reduce qualification time for approving new technologies. R&D might be looking for suppliers able to design or innovate on their behalf to support the organization’s product roadmap.

Once the critical priorities have been captured, procurement leaders should begin the supplier segmentation exercise (see [Supplier Segmentation Tool](#)). The goal at this stage is to begin categorizing the suppliers in different “segments,” according to how well they can support the priorities of the business as reflected in the stakeholder input received. There are many ways that supplier segmentation can be done, as priorities will vary greatly across organizations. However, there are fundamental best practices that can be applied (see [How to Design an Effective Supplier Segmentation Strategy](#)).



At this stage, by creating this preliminary list of suppliers by different segments, procurement leaders will be able to enter the second phase of the supplier collaboration strategy process with an initial set of proposed “strategic” suppliers to discuss with internal stakeholders. The most common approach is to start by focusing supplier collaboration efforts on strategic suppliers first, and then as the strategy evolves, scale across other nonstrategic suppliers using different engagement mechanisms.

Avoid one of the most common mistakes, which is having procurement hand-pick the strategic suppliers to include in this initiative based on their understanding of company needs and spend volume without input from internal stakeholders. Reaching out to stakeholders early on not only ensures you target the right supplier capabilities, but also drives stakeholder engagement by demonstrating how this program is meant to support their internal goals through better supplier collaboration.

## Evidence

<sup>1</sup> **2019 Gartner Procurement’s Value Contribution in Supply Chain Survey.** “What are your organization’s top three priorities for the sourcing and procurement function?” (n = 264)

Results presented are based on a Gartner study to understand the business outcomes that procurement is most focused on supporting, the primary levers it is using to achieve these business outcomes and the technology enablers required to operate these levers effectively. The primary research was conducted online from July through August 2019, among 264 respondents in North America, Latin America, Western Europe and Asia/Pacific.

Companies from retail, manufacturing, healthcare and natural resources were screened for having annual revenue of less than \$1 billion. Respondents were required to be at a manager level or above, and have primary involvement in and responsibility for the sourcing and procurement function in their organization. The study was developed collaboratively by Gartner analysts and the Research Data and Analytics team that follow supply operations.

Disclaimer: Results do not represent “global” findings or the market as a whole, but rather reflect the sentiment of the respondents and companies surveyed.

<sup>2</sup> [2019 Global SRM Research Report – Harnessing and Growing Supplier Innovation](#), State of Flux.

<sup>3</sup> **2020 Future of Supply Chain Survey.** From 10 September through 8 November 2020, Gartner Supply Chain Research sent invitations to complete an online survey to Gartner clients, community members and to a wider group of practitioners in supply chain, and other functions



globally. We received 1,346 completed responses during the survey period for this 2020 Future of Supply Chain Survey.

<sup>4</sup> **2018 Gartner's Supply Chain Talent and Organizational Pulse Survey.** Gartner surveyed organizations between 24 August 2018 and 3 October 2018 to understand how supply chain professionals feel about their careers and the workplace, provide insight into demographic differences, find out the impact of digital business on employees today, and how governance, culture or other structural mechanisms support or hamper their ability to be successful.

In all, 694 respondents participated across the U.S. (n = 152), Canada (n = 38), France (n = 46), Germany (n = 59), U.K. (n = 111), Mexico (n = 47), Australia (n = 53), New Zealand (n = 5), Singapore (n = 50) and India (n = 133). Country, value chain industry, revenue band and job role quotas were established to enable the comparison and contrasting of key trends.

- Qualifying organizations are large organizations in the retail, healthcare provider, consumer products, chemical, industrial, high-tech and life science manufacturing industries with at least \$1 billion equivalent in total annual revenue for their fiscal year 2017 (\$250 million equivalent and above outside the U.S.).
- Qualified participants hold positions or job roles tied to supply chain functions (i.e., planning, sourcing, manufacturing, logistics, customer service, strategy and IT).

Interviews were conducted online and in a native language (English, German, French or Spanish). The sample universe was drawn from external panels of IT and business professionals. The survey was developed collaboratively by Gartner's Research Data and Analytics team and Gartner analysts who follow these IT markets.

Disclaimer: Results of this study do not represent "global" findings or the market as a whole, but are a simple average of results for the targeted countries, industries and company-size segments covered in this survey.