

How to Select Innovative Supplier Partners Using a 5-Step Project Management Approach

Now more than ever, supplier selection must produce stellar results as companies increase their focus on supply chain management and push more requirements down the chain to their partners. Business continues, but with different strategies. For example, Siemens AG plans to reduce costs by centralizing 47% of its procurement spending by 2010, compared to its current level of 29%.

Clearly, companies are viewing changes in supplier management as a way to gain more value from their partners. Consequently, performance expectations are increasing, and companies are using their supplier partnerships as a means of driving innovation. Using the right supplier selection tools can play a critical role in building value-based relationships.

So, how can you ensure a successful selection process?

What is the Project Management Approach to Selecting the Best Suppliers --- And How Will It Help Your Organization?

The Project Management Institute (PMI) model serves as an excellent framework for procurement activities. This structure can help procurement teams focus their attention on each key element in the selection process and identify the real treasures in their potential supplier base. The PMI model identifies five process groups teams can use to design and manage a value-based selection process. These are:

1. *Initiating* – Ensures the support of leaders in your organization so you can move forward.
2. *Planning* – Critical for identifying all of your business needs.
3. *Executing* – Provides a structured approach for evaluating bids to guarantee desired results.
4. *Monitoring and Controlling* – Forces you to evaluate and incorporate any new information.
5. *Closing* – Formalizes results and establishes a plan for implementation.

Initiating – The First Critical Step in Selecting an Innovative Supplier Partner

In the *Initiating* phase, the sourcing of a product or service is approved and key players are identified, including stakeholders and the project team. This is critical in large organizations where a product or service such as a communications process, for instance, touches a multitude of business units and functional groups.

For example, the General Motors (GM) dealer communications process involves approximately 10 constituent groups within GM alone. When the dealer relations team needed to identify a new supplier, they canvassed the corporation. They identified each department that used the process, even those that only sent materials to dealers occasionally. This group of stakeholders was involved up front, and the team was able to avoid issues later in the procurement activity.

Planning – A Phase That Must NOT Be Shortchanged Just So You Can Find a Supplier Quickly

The team uses the *Planning* phase to flesh out business and performance requirements in detail. Each stakeholder group feeds its unique set of expectations to the team, who then incorporates them into the requirements. The team identifies the risks, scope, cost targets, and timing of the procurement effort.

This phase has some unique aspects for a procurement project, the most important of which is identifying qualified potential suppliers. The team should think creatively about how the new supplier must create value and provide benefits that were missing in the past. With proper planning, an organization can move from having suppliers who just sit on the sidelines to having real value partners who support the strategic vision. For instance, suppose a sales organization wishes to upgrade its online store and improve order-processing time. They must identify a fulfillment supplier with strong IT capabilities and state-of-the-art warehousing.

A note of caution on the *Planning* phase is in order. Procurement teams must resist the temptation to shortchange this step in the name of finding a supplier quickly. The task of identifying requirements can take months, as was the case with GM's dealer communications process. Identifying requirements up front will uncover possible conflicts and inadequacies. For example, if a benefits solutions group wants to implement a web-based application process, they need to know whether their existing technology infrastructure will accommodate such a change. Knowing these things will help the team come up with a realistic task list and timeline for implementation.

Executing – The Third Critical Step in Selecting an Innovative Supplier Partner

In the *Executing* phase, the team brings to bear the fruit of the *Planning* phase by creating and distributing a Request for Proposal (RFP) that reflects the business requirements. The team uses the requirements to develop evaluation and ranking tools, and then uses these tools to assess each response to the RFP.

The team identifies a subset of suppliers as candidates for negotiations, and conducts a series of detailed discussions that include clarification of the RFP response, scope issues, schedule, and other areas of concern. This step includes multiple rounds of pricing discussions that will lay the groundwork for a final selection.

Monitoring and Controlling – The Fourth Critical Step in Selecting an Innovative Supplier Partner

In the procurement context, *Monitoring and Controlling* involves a review of the scope, requirements, schedule, and other metrics involved in the evaluation. This review creates an opportunity to refine assumptions and get feedback from the respondents on their ability to meet or exceed the stated performance goals. Teams can use the feedback to calibrate the performance goals and to make tradeoffs of scope versus schedule, for example. Then they can create a more realistic set of performance goals, if appropriate. The team documents changes to performance metrics, scope, and schedule, and presents these for approval as well.

Closing – The Last Critical Step in Selecting an Innovative Supplier Partner

Closing is the last phase of the project. Here the team recommends a supplier to the appropriate groups, and the purchasing managers develop the contract documents. The procurement team develops guidelines on details to watch for while managing the new contract. For example, if the team awards a contract to a web developer on the condition that the developer commits additional resources for implementation, the commitment needs to be captured in the guidelines to ensure it is not overlooked. This document also serves as a reference for future procurement activities, including any follow up work with the selected supplier.

This five-step method is an indispensable tool for addressing current and future requirements, particularly for multifaceted contracts involving diverse stakeholder groups within your organization. Using it will ensure your ability to select a partner with the vision and capabilities needed to create a sustainable, scalable solution that advances your strategic goals.

About the Author:

With more than 25 years experience in manufacturing, product line management, program management, and outsourcing initiatives, Monica Johns (President and CEO of Clarity Management Consulting) can help you select an innovative supplier partner. To learn how she can help you reduce operating costs and revolutionize the way you do business, visit www.claritymanagementconsulting.com.