# Vendor Engagement

**By Allan Schweyer**

**INTRODUCTION**

Of all our stakeholders, vendors and suppliers are often the most challenging. It's natural to think that if you select a supplier and pay their fees, they should be happy and provide sound customer service. But suppliers are just as human as customers, employees and other stakeholders. To get the most from them, you have to treat them with the respect, trust and emotional intelligence they deserve.

The relationships with those in the supply chain can represent the greatest risk of all to a business. Unlike customers, vendors might remain even when they're treated poorly. But as with employees, financial incentives alone won't engage them to the point where a real relationship is created. Absent emotional engagement with your suppliers, you can never become a "customer of choice." And when your suppliers see you only as a paycheck, they're not emotionally invested in your success. This can be a crippling disadvantage that's especially fraught with risk because it lurks just below the surface – invisible until a crisis occurs and a trusting partnership with a supplier is needed, but it's not there.

**STEAK AND PRODUCE**

Consider the advantages that an engaged vendor brings. Imagine you're a restaurant owner in a small college town that specializes in local fare. You've been in business for a year and things are looking very promising. You have one main competitor who is also supplied by the only organic farm in the area, just outside town. The busy fall season is approaching, parents will be arriving with their kids and everyone is looking for a nice place to have dinner (students are especially conscious about food and the environment).

Suppose prime cuts of beef are suddenly in short supply and the vegetable growing season was cut short by an early autumn cold snap. There's simply not enough organic beef and produce to meet demand. Will your restaurant be the one offering steaks and local farm-to-table produce? Or will you be running blue-plate specials on pasta and burgers? It likely depends on your relationship with your suppliers.

Suppose you're told that your allotment of steak and produce will be far less than what you need. How do you react? Do you threaten to remove them as a supplier if they don't come up with what you need? Do you threaten to withhold monies you might owe them for past deliveries? Either response is typical of what suppliers encounter all the time. But think about your competitor – the restaurant across town that is getting all the steaks and produce it needs. Why? Maybe they pay a premium, but it's more likely due to the type of relationship they have with the supplier. Their suppliers are treated more like partners, with trust, transparency, respectful interactions, perhaps even incentives and certainly plenty of recognition.

Your competitor goes on to have record revenues for the next two weeks. In fact, you lose two of your top wait staff to them (perhaps your employee engagement practices are also in need of adjustment). Your competitor wins some of your customer base, and your relationship with your supplier is worse than ever.

> Many of our frequent and recurring failures in organizations are a consequence of not comprehending the importance of relationships. We approach major organizational issues – mergers, accountability, knowledge management, implementation and change – as if they were engineering issues.
>
> ~ Meg Wheatley

Of course, nothing comes without cost. Your competitor spent time and money ensuring that their relationship with the supplier was grounded both in the rational and the emotional. In addition to paying on time and agreeing to a fair price, your competitor shows appreciation for the supplier, she visits the farm on occasional weekends with her family and invites the owners and staff to her restaurant. She features recipes with the farm's products in her monthly newsletter, promoting them alongside the restaurant itself. She recognizes exceptional customer service by thanking farm staff and praising them to the farm's owners.

In August, well ahead of the fall crush, she met with the farm. She explained the importance of the two weeks in mid-September that could make or break her business. By sharing this information, she made herself vulnerable to the farm raising prices – after all, it has her over a barrel. But because the relationship is strong and built on trust, and because the farm owners genuinely care about her restaurant's success, jacking up prices doesn't even cross their minds. Indeed, they bend over backward to help her prepare. And when the unexpected cold snap occurs and their beef supply drops at the same time, they take care of her…to your detriment.

**TREMENDOUS RISK**

In 2012, Gallup published a white paper on supplier engagement entitled *Creating Strategic Advantage through Superior Supplier Engagement*.[1] The authors, Leslie Rowlands and John H. Fleming, found that organizations face tremendous risk in their supply chains due to numerous factors, but key among them is the absence of an "emotional connection" in most of their relationships with vendors.

The paper goes on to advise leaders that they should actively measure supplier engagement and strive to become a "customers of choice." Doing so, they argue, requires more than the rational elements associated with paying vendors for their goods and services. Instead, leaders should seek a blend of the rational and emotional drivers that create deep, enduring and resilient connections.

The reward is better customer service, first access to the latest improvements and innovations created by the vendor, vendors who speak highly of your organization and recommend you to others, and, as in the example above, access to goods and services when demand exceeds supply.

> Many fear their companies are only as strong as the weakest link in their supply chain.
>
> ~ Gallup, 2012

The closer you get to your vendors, the more they trust you and the more you might learn about your industry and the competition. While you should not attempt to turn your suppliers into spies, they're a terrific source of intelligence about what's selling and what might be coming next. As Rowlands and Fleming note: "…suppliers will go above and beyond for one customer over another, yielding advantages for the customer of choice."

Bestselling author Dan Pink echoes this sentiment. In his book, *To Sell is Human*, he describes a new world of selling in which suppliers no longer have an information advantage over buyers. He refers to "problem-finding" as the new value suppliers can offer their customers and uses Mentos Mints as an example. Today, Mentos' parent company, Perfetti Van Melle, emphasizes a new frontier in sales by helping customers understand their businesses better.

According to Pink: "Using a mix of number-crunching and their own knowledge and expertise, the Perfetti salespeople tell retailers what assortment of candy is best for them to make the most money. That could mean offering five flavors of Mentos rather than seven. And it almost always means including products from competitors."

Pink cites a Perfetti VP as saying his best salespeople think of their jobs not so much as selling candy but as "selling insights about the confectionary business."[2] Imagine a world in which your suppliers' market insights give you the intelligence and vision you needed to stay a step ahead!

**BEST PRACTICES AND TACTICS**

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1 - See: http://www.gallup.com/strategicconsulting/159326/creating-strategic-advantage-superior-supplier-engagement.aspx for the full report.

2 - Dan Pink, To Sell is Human, Riverhead Books, 2012. P.131

Gallup suggests that organizations follow a structured process for vendor engagement. All suppliers are not equal in terms of their importance or risk to your business, so it makes sense to evaluate them – including whether you have the right vendors and the right number of vendors. While it's likely you'll have two or more tiers of vendor – and you'll focus more of your engagement effort on some rather than others – good relationships should be sought with all.

**BASIC SATISFACTION**

It's important to draw a distinction between vendor management and vendor *engagement*. A good definition of the former comes from Frank Nuegebauer, CIO of United Educators, who calls supplier relationship management "an all-inclusive approach to managing the affairs and interactions with the organizations that supply your company with goods and services. This includes communications, business practices, negotiations, methodologies and software that is used to establish and maintain a relationship with a supplier. Benefits include lower costs, higher quality, better forecasting and less tension between the two entities that result in a win-win relationship."

> The real potential comes in the collaborative, mutually supportive relationships you establish with the suppliers whose capabilities best fit your needs. By building trust and transparency with these companies, you can eliminate inefficiencies, collaborate on innovations, and take advantage of each other's strengths.
>
> ~ Paul W. Schroder and David M. Powell

Naturally, good supplier relationship management is a necessary foundation for supplier engagement; it's akin to employee or customer satisfaction but on the vendor side. But satisfaction maps only to the rational elements Gallup addressed in the white paper referenced above. While they're all necessary, they won't endear you to a supplier on an emotional level, and therefore won't confer maximum competitive advantage.

Strategically and tactically, then, it's essential that solid supplier relationship management has been established – including rigorous processes for vendor selection, clear service level agreements, communications, dispute resolutions and vendor evaluation. Once those fundamentals are in place, vendor *engagement* can build a deeper, more resilient relationship. Of course, there's no reason that vendor management and vendor engagement capabilities can't or shouldn't be built simultaneously.

**ENGAGEMENT**

Eliminate elements of your culture that encourage or tolerate adversarial relationships with suppliers. Make it a policy that money isn't to be used to drive better vendor performance, or the withholding of money used as a threat. Pay fairly and on time for goods and services that are delivered according to Service Level Agreements (SLAs). Even consider financial bonuses for exceeding SLAs, but avoid threats to withhold money owed and avoid policies to always choose the low-cost supplier. At the same time, resist offering premiums only when you're in desperate need.

Cultivate relationships that move beyond a transactional mindset. Be sure not to treat vendors maliciously or with "benign neglect" – both are dangerous. By being engaged in projects outsourced to vendors, you demonstrate their importance and make it possible for vendors to be engaged in turn. We all carry some responsibility for being engaged, so that our employees, those who sell to us, our partners, customers and others can more easily make the effort to truly connect to our goals – and our success.

> All relationships in an enterprise system are connected, including the vital living and emotional connections between stakeholders.
>
> ~ Jeremy Scrivens[3]

3 - See: http://www.businessdnaresources.com/Articles/The%20Emotional%20Economy%20-%20White%20Paper%20200.pdf

Most leaders know that one of the benefits of engaged employees is greater creativity and innovation. Engaged employees, by definition, trust their employers. Because they trust and because they're happy at work, they can take risks, offer suggestions and innovate. Likewise, vendors should be made to feel secure and trusted so that they offer suggestions, give feedback and provide information. After all, few stakeholders are better positioned to understand your industry (and your competitors) than your suppliers, and few invest more time and effort in their understanding. They can be a natural and invaluable ally.

**COMMUNICATION**

Strive for transparency in your relationships with suppliers. Communicate frequently and disclose fully. A partnership without transparency is a dysfunctional one that cannot leverage information and strengths. Where your organization relies on a web of suppliers, withholding vital information creates chokepoints, leading to slow responses and errors. Transparency, on the other hand, allows for easier orchestration of the many moving parts in your supply chain. Of course, some information must be held secret, but in general the tendency to be open and share is the superior culture.

As with employees, try to make all interactions positive. In situations where the vendor isn't performing and you feel the situation cannot be corrected (or it would take inordinate time or resources to do so), respectfully end the arrangement, much as you would with an employee who cannot or will not do the job.

**REWARDS & RECOGNITION**

Use recognition widely, it's free and has an enormous impact. From praising vendor employees to sending thank-you notes when expectations are exceeded to recommending your supplier to other potential customers (or acting as a reference), the bonds are strengthened and the emotional commitment deepened. Even an acknowledgement on the bottom of an email about unrelated business can have a powerful impact. It can go a long way toward building good will, and it only costs you a few seconds of your time.

Consider tangible rewards where appropriate. Bonuses for exceeding SLAs, gain-shares for completing a project ahead of schedule or under budget – even contract extensions recognizing excellent work – are legitimate drivers of engagement. But more powerful still are rewards with a personal touch. The restaurant owner inviting supplier employees for a free dinner. The CEO taking an executive from a vendor company out golfing or sailing. The tangible reward value may be small, but the impact is often immeasurably large and long-lasting.

**RELATIONSHIP-BUILDING**

Choose those who lead your vendor engagement efforts carefully – as you would supervisors and managers of your employees. In addition to domain knowledge, project management, communications, problem-solving, negotiating and contractual skills, they should possess sufficient emotional intelligence to build and maintain the kind of trusting, transparent relationships described above.

Engagement beyond employees and customers is still a fairly radical idea, which makes its early adopters ripe for realizing a competitive advantage. People want to be engaged, but you still have to give them reasons to *become* engaged. Whether they're employees, customers, partners, vendors, volunteers or members of the community, people want to be inspired and feel like they're a part of something meaningful. What is elegant and immensely attractive about engagement is that it offers so little resistance.

Why not build convivial, trusting relationships with suppliers and stakeholders? Conversely, why would you either deliberately create caustic relationships or allow them to develop with the people you rely on most to make your business successful – whether they be employees, customers, partners or suppliers?