

Sellers market

Is the power shifting to the suppliers?

"Corona-Disruptions"

The Corona has in 2020 and 2021 caused many supply chains to be hit by temporary disruptions, or decreased capacity in factories and transport chains.

Products which contain many components and deep bills of materials are especially hard hit, as just a few item shortages can cause production to be halted. In many cases the number of variants offered must be limited to ensure availability of high sellers, or because some configurations miss components.

Especially in the mechanical industry the effect is severe, creating delays in deliveries to the automotive, IT and machinery sectors, as well as related service sectors who install and provide service to the same machines.

The disruptive tendencies are expected to continue for a long horizon, caused by so many changes in a lot of industries. The combined effects are constant new bottlenecks, geographically and vertically.

Imbalances between supply and demand between destinations have caused limited/missing capacity in the transport system, which further has been reduced during the Corona. Waiting times for loading and offloading have increased, and the connected infrastructure in harbors, air terminals and transport equipment like containers is not optimally allocated to the new patterns of supply.

Therefore, the transport rates have skyrocketed, many "landed cost" calculations are not valid any longer, and prices increase through the value chain.

What to do then, post-Corona?

Before Corona

For decades the power structure in the supply chains was based on the fact that the buyer had the upper hand - via strategic sourcing projects, spend analysis, category management - and this was possible in a world where there was "enough of everything".

The buyer was equipped with vast amounts of data, which was then exploited to generate advantages.

Technologies like purchase-to-pay, buying portals and demand management have supported the fact that the buyer was controlling the relation.

We can call this the **power relation**-approach.

SRM, Supplier Relationship Management, is a management philosophy, which has been used to pack buyers' "rights" into a package of management tools to get suppliers to fit into strategic programs the buyer launches; product development, quality management, or supply chain flexibility - including "requests" to sign frame agreements that prices must be reduced by XY% per year - to be able to obtain "the privilege" to be supplier to the buying company.

What happens now?

The picture turns now, as the supply is scarce - the buyers must make themselves more attractive, to be able to buy anything at all. The buyers now work hard to ensure the originally informed quantities can be kept, just to keep the existing suppliers. Often this results in the need to accept increased prices, capacity reductions, partial deliveries etc., or they must buy materials and components, which are not the latest in terms of product development, variants, quality features, certificates etc.

Suppliers can now increasingly prioritize to whom they want to sell, and they do this based on how they judge the customers' "performance": margins, growth rates (historical or potential), return rates, forecast quality, payment terms and ability to pay (changes in the latter can have dramatic impact on cash flow, which is becoming a more strategic factor).

Buyers driven by the power relation will need to change their mindset and understand how sellers see their customers, and the marketplace and channel they belong to, and hence review their company's profile and sourcing strategy, by assessing their own image seen from the supply side.

Furthermore, buyers will need better operational procedures and tools to ensure their expected deliveries will actually arrive, that the quality is acceptable, and that shared forecasts are respected and used by suppliers in their planning processes.

Hard pumped solutions from buyer side with demands of supplier-financed inventories will find hard times ahead, especially in bottleneck categories where there's "too little of everything", and sellers will prefer clean transactions instead of uncertain potential future payment cycles.

Sellers market

Is the power shifting to the suppliers?

A side effect of this is that the cash flow is weakened on the buyer's side, so also here the advantage moves to the seller's side.

Correspondingly, purchase portals with high variance in demand signals driven from buyers' MRP, often without safety stock on the buyer's side, will find it harder to survive, as they typically drive major capacity costs on seller's side, either as safety stocks or idle production capacity.

**" Who has the power?
And must – or should -
anyone have it? "**

Options to mitigate the "power shift"

Some buying companies have developed **collaborative sharing** practices, where data, influence and inspiration is shared to suppliers in areas of demand forecast, product development, service, logistics, inventory management, etc.

This type of relation will to some degree be "self-balancing", caused by elements of "open book", while buyers using the power relation count on supply to always be sufficient, and plan to ultimately play suppliers against each other (though not openly communicated, of course).

An approach to the vendor-buyer relation which encourages **collaboration and sharing of data** thus will work towards a relation where the power is not placed on one part, but where cooperation is key and where they leverage each part's understanding of the other part's business and challenges.

In this scenario, SRM can be moderated to cultivate the relation, instead of being used one-sided.

Focus must be switched from internal to external, which for many companies will be a "revolution" of their approach to dealing with business partners.

Before the Corona, this was an option – now it has become a necessity.

Solutions which facilitate management of the development of collaboration

scat3 develops solutions based on technologies which create a new kind of safety for the buyer, to handle the new norms and trends:

- Methods to evaluate how the supplier side looks at the buyer's own organization, in a range of parameters (**two-way assessment**) – as opposed to the classic one-sided supplier scorecards. This helps the buying organization understand how their behavior is being perceived by the supplying side.
- EDI, **connecting internal and external systems**, tracking of orders, confirmations, and shipments, which make up the inbound supply chain.
- Systems to build **visibility in the supply chain**, where buyer and seller share information about inventories, MRP data, forecast, master data, etc., with the purpose of optimizing all links in the chain, not only internally.

Systems mentioned above can help **enhance cooperation and transparency in the supply chain**, instead of each part sub-optimizing their own corner of the world – which would lead to build-up of excess inventory (the bullwhip effect). The above-mentioned systems and processes will also enable the cultivation of a **healthy vendor-buyer relation**.

Systems are often implemented along with a renewed approach to the vendor-buyer relation.

scat3's solutions are always developed based on an understanding of the customer's processes and supply chain strategy, and solutions are developed through a dialogue to ensure adaption to the individual organization and its processes.

The toolbox of digital products is used when the solution is drafted, and the technical part typically consists of integration between existing internal systems, an integration platform (iPaaS), potentially new applications, but also business partners' (external) systems, for example ERP, ecommerce, transport management, 3PL, etc.