The winds of change

The wind turbine industry can teach us a thing or two about supplier performance and risk management, according to *Maciej Zaleski-Ejgierd,* CEO at Procurence and *Vanja Winblad* at Vestas Wind Systems

The renewable energy sector and the wind turbine industry in particular offer a good case for comprehensive supplier risk management. It combines standard manufacturing with sophisticated installation and maintenance services. It is highly international, yet with emphasis on local solutions. Finally, despite all crosswinds, it is still in an accelerated growth phase. All in all, it offers lessons for everyone.

Thanks to a buffer of established personal relationships and low level processes evolved to cope with common problems, companies in stable industries and with stable geographical coverage have the lowest level of supplier-related risks. Although it is not advisable, they can afford to deal with these risks at an operational level. In the wind industry, where slow-down in developed countries has forced a faster expansion into emerging markets and where the installation suppliers have direct contact with the customer, this is no longer adequate to ensure a sustainably high level of service.

A growing risk

Where fast growth forces new relationships, structures and processes, systematic and ongoing evaluation is essential to detect and deflect risks in the supply chain. These risks include the financial stability of the suppliers, quality of work and the accompanying costs of maintenance and repairs (particularly high in this industry due to remote location of the installed turbines), health and safety infractions and potential social or corporate social responsibility (CSR) problems with the workforce in the developing countries. For instance, risk of corruption and compliance to local laws, such as the Black Economic Empowerment law in South Africa.

Listen to your employees

To put it simply, listening to your employees improves performance. Standard compliance-based supplier evaluation designed to detect the risks above is a must, for example – 'do you have X, do you comply with Y'. It is the most basic risk avoidance technique and protects you from the downside of risk by acting as a minimum defence – the 'we've done all we could and here's the proof' argument.

The added value, however, lies in the upside of risk – in listening to your people to improve the performance of your suppliers and hence your own profitability. The key lies in regularly asking your stakeholders to provide a very brief evaluation of the suppliers' performance (quality, reliability, responsiveness, flexibility and customer service) and combine the data with hard facts (delays, quality metrics and damage claims). Most importantly, this applies both to manufacturing and services.

Internal client satisfaction polls may work to your advantage. Most companies have established multinational suppliers that get new orders through pure inertia – they're underperforming but simply not bad enough to be thrown out of the supplier network.

However, in an example from the real world, one of such established suppliers decided to expand to a new country, where internal satisfaction surveys were regularly performed. The low scores they received was the first instance where the dissatisfaction felt by the operations people got through to higher levels of management in a quantifiable and statistically significant way. In this case the story ends well, due to immediate reaction of the supplier's top management who met with the client and came up with an improvement plan.

This is a typical situation where weak signals of developing problems get filtered out by middle management, so that low-performance relationships continue for years, to the detriment of both parties. Having a standardised, ongoing evaluation system helps to aggregate such weak signals and pass them on to top management. How many such cases may you have in your company? The higher the level of local autonomy your subsidiaries enjoy, the more attention you should pay to this question.

If you have problems with a supplier in one of your countries it may not be enough to deal with them locally. Often the suppliers concentrate on customer satisfaction in your core countries and neglect the others, hoping that your internal communication won't catch on.

Be prepared to evaluate your suppliers per relationship (country, factory, project), and in case of willful underperformance threaten to hit them where it hurts – across all markets, rather than in individual countries.

Pulling it together

The final lesson to be learnt from the wind industry is the holistic approach to supplier risk evaluation. You need to combine the efforts of procurement, quality management, risk management, corporate social responsibility, ethics, sustainability team and operations (and in some cases the finance department) to come up with a rounded image of the supplier's capabilities and the risks they may pose.

Lowering the likelihood and impact of supplier risks is never free; someone has to pay for it in higher prices, stock levels, process costs and resources. Only after you make the risks and their potential risks transparent, can the stakeholders decide whether the costs outweigh the potential benefits and take the necessary actions. ■

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CEO'S AGENDA

Five cases where supplier (risk) management belongs on a CEO's agenda:

- When you work with the same suppliers in several countries – their performance may vary wildly across borders;
- In high-growth periods, when you need to rapidly build capacity and the selection of new partners is the make-or-break of your future business;
- When suppliers have direct contact with your clients – during sales, installation, and after-sales service – they constantly create or devalue your brand;
- If potential quality problems are costly to remove or remedy after the product leaves your production site;
- If business ethics, social responsibility or environmental performance are important to your customers.

No disasters, no problem?
When was the last time you were informed about the performance of your suppliers? Very often, such information reaches the CxO level only if there is an emergency, to be solved and forgotten. Don't make this mistake! Improving supplier performance has much bigger impact on your bottom line than most marketing campaigns.

Forget the numbers. What are the trends?
Supplier evaluation score in itself is worthless. What is important is the trend and relative ranking of suppliers. Individual suppliers' decreasing performance against the backdrop of.

Talk to your underperformers
Ask your staff to give you a list of candidates and try calling one supplier per week for a brief chat. Sometimes all it takes is a five-minute phone call from one CEO to another to motivate the underperforming supplier to comprehensively improve their ways. Saves time, money and effort needed for switching suppliers.

Praise your top performing suppliers
When was the last time you send them a quick "thank you, we appreciate your service" note? Same as with you employees, feeling appreciated will increase the suppliers' commitment – even without formal awards.

What are the risks coming from your supply chain?
The most professional Enterprise Risk Management department that dissects your own company in search of potential risks will not help reduce your risk exposure if you don't know anything about your suppliers.