CIPS believes that while supplier rationalisation is an enabler to controlling costs within an organisation and its supply side, extreme rationalisation has its own risks, such as market distortion, the artificial creation of new monopolies, and undesirable social outcomes. Some large organisations and the public sector need to manage carefully initiatives such as supporting the Small Medium Enterprise (SME) and buying from local sources while trying to achieve significant cost savings for those organisations.

Social impacts of supplier rationalisation
CIPS believes that supplier rationalisation is an important practice within purchasing and supply management to help organisations achieve optimum efficiency when managing external resources. CIPS also believes that for some time now organisations have undertaken this activity without giving any consideration to the social impacts of the decision making process related to this activity. CIPS encourages all purchasing and supply management professionals to constantly exercise a ‘what if’ approach in relation to supplier rationalisation. The ‘what if’ mind-set will enable purchasing and supply management professionals to determine the potential outcome of the risks associated with supplier rationalisation by testing assumptions and other alternatives for consideration.

Supplier rationalisation
CIPS believes that developing a portfolio of suppliers to achieve optimum efficiency, including product and service cost can be difficult. Choices may appear straightforward but they rarely are. Purchasing and supply management professionals need to satisfy not only the contradictory internal requirements but must also consider the external commercial and social impacts to achieving an optimum efficient supply base. Such elements as an existing supplier dependency can have an enormous negative social impact as a result of a rationalisation exercise as well as potential loss of effective competition.

CIPS recommends that purchasing and supply management professional's employ a range of tools, one example being supplier positioning prior to undertaking the exercise of supplier rationalisation (reference should be made to the practice document on Supplier Relationship Management). This exercise will enable purchasing and supply management professionals to better understand the nature of the relationship with suppliers.

Sensitive management of rationalisation decisions CIPS believes that purchasing and supply management professionals should allow the suppliers involved in this process as much time as possible to deal with any issues arising from a rationalisation exercise. Where necessary, and if possible, purchasing and supply management professionals should support and facilitate introductions/opportunities for the supplier to trade via a preferred third party (such as so they can become a subcontractor and don’t lose the business entirely) the sooner the better as those relationships may need time to develop within their own right.

Where appropriate purchasing and supply management professionals should assist the supplier in widening their customer base by helping them develop experience in dealing with a range of differently sized customers (for example depending upon the maturity of the supplier some mentoring may be needed to help them understand what different customers may be looking for and how best to present their proposals).

Purchasing and supply management professionals should recognise and understand the potential social impact and reputational impact of any rationalisation on a case-by-case basis and take this into account in the risk assessment for the decision (for example if use is made of vulnerable groups such as disabled workshops then exceptions may need to be made regardless of immediate monetary cost - if there is a CSR department in the organisation purchasing and supply management professionals should solicit their contribution to the decision making process; they may also have aims/budgets/targets that may be useful cross-functionally in offsetting any exceptions to the main purchasing rationalisation strategy).
Supplier rationalisation

Involvement in the rationalisation process

CIPS believes that due to the potential risks associated with the practice of supplier rationalisation the decision-making unit should consist of a cross-functional team of stakeholders within the organisation, for example:

• senior management
• budget holders
• marketing/PR
• internal customers
• human resources
• suppliers.

Transparency, fairness and confidentiality

CIPS believes that purchasing and supply management professionals should make the practice of supplier rationalisation as transparent as possible. This clearly means being open with all stakeholders involved, both internally and externally, so that all parties understand the elements of the process, that is, the procedures, expectations, timescales, rationalisation criteria, and so on.

Clearly confidential information should not be disclosed to any third party or used in any way without the consent of the supplier. In particular it must not be shared with other suppliers.

In general, when a supplier asks for clarification during the rationalisation process purchasing and supply management professionals should give all stakeholders involved the information requested. However, if a supplier asks insightful questions the answer should not be circulated to the other suppliers as to do so may remove the competitive advantage of that supplier. Throughout the rationalisation process all suppliers should be treated equally and fairly. Unsuccessful suppliers should be debriefed with as much transparency about the rationalisation process as can be provided; for example, reasons for non-selection to the preferred supplier base.

CIPS believes that it is essential that purchasing and supply management professionals formulate an agreed exit strategy, that minimises both commercial and social impact on both parties and on the relevant communities at the very outset, if possible given the particular circumstances and monitor for any dependency arising in the life of the contract (taking appropriate action given the supply/reputational risks).

Conclusion

In the current environment in which organisations operate purchasing and supply management is increasingly more than buying in products and services for organisations. Customers are now asking organisations to be more socially responsible for their actions in providing products to the open market. CIPS believes that purchasing and supply management can add considerable value to an organisation’s social responsibility and also add value in any risk management process within an organisation.

This practice document has stated that supplier rationalisation is a strategic activity and is a valuable technique to the profitability of an organisation. CIPS believes that social awareness and the awareness of risk are positive traits in the successful buyer - they need to be seen not as an expectation that issues will escalate but rather as an alertness that social criteria such as urban regeneration, local economic impact, social diversity, employment of illegal immigrants and sustainability, to name a few, needs to be considered and the risks associated are acknowledged and complimented with a readiness to take positive steps to prevent any undesirable outcome such as skills shortage/ adverse reputational impact.

CIPS recognises that not all buyers are equal. Significantly the skills identified in this practice statement are a necessity for the management of the supplier rationalisation process. Like many skills, effective supplier rationalisation improves with experience and so, with practice, knowing how far to analyse and assess the social issues will become easier, if not intuitive.

Key skills and development

CIPS has long advocated that the practice of supplier rationalisation is a strategic activity, therefore purchasing and supply management professionals should have, in addition to the core purchasing and supply management technical expertise, the following skills as they apply to supplier rationalisation. However it is important that purchasing professionals endeavour to keep up on the development of these skill sets:

• a knowledge of risk management techniques
• analytical mind set
• knowledge of suppliers business and their markets
• listening skills
• diplomacy skills
• interpersonal skills
• emotional intelligence/intuition skills
• understandings of the social make up of an organisation for example the suppliers standing in the community.