

SUPPLIER DEVELOPMENT PRACTICES: A CASE OF LEADING SHOE RETAILER OF PAKISTAN

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ABSTRACT

The purpose of this study is to review and evaluate the supplier development practices being followed in the footwear industry of Pakistan. For this purpose, an extensive literature review is conducted to find out the best practices in supplier development, designed and implemented in various industries across the globe. Once these practices have been identified, supplier development practices/strategies of a leading footwear player of Pakistan are studied with an aim to draw a comparison of current practices being followed in footwear industry versus the best practices being reported in literature. Based upon the research findings, gaps in supplier development practices are identified for future improvements.

Field of Research : *supplier development, supplier development practices, footwear industry, strategic supply chain management*

1 Introduction

Purchasing functions basic objective is to maintain a network of most capable suppliers [1]. However, many purchasers view their performance of suppliers in critical aspects such as of cost improvement, quality, delivery performance, financial health and latest technology adoption [2]. To compete in various competitive markets, buying firms must make sure their supplier capabilities, performances, and responsiveness. As a result, many firms actively facilitate performance of suppliers and their development thorough supplier development. For this particular study, supplier development was defined as: any effort of a buying firm with a supplier to increase its performance and/or capabilities and meet the buying firm's short and/or long-term supply needs [4]. In practice, supplier development activities are rising significantly, ranging from limited buying efforts such as of informal evaluation of suppliers and expectations for improved performance to extensive efforts that might include trainings of suppliers and investment in operations of suppliers [5].

Usually, buying companies face the challenge of not getting products as being demanded by their customers or quality or performance expectations are not met by Supplier Company's at given price which also impact the competitiveness of buying firm. Three solutions are proposed for such problems [6]:

Switching to other suppliers: Buying Company can search other suppliers which are more capable than current one.

Vertical integration: Bringing in the needed product by acquiring the supplier or setting up manufacturing capability internally

Supplier development: By adopting various supplier development strategies, the current performance and/or capability of supplier, can be improved to meet the buying company's requirement.

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Many companies have faced the problems of supplier's inability to improve themselves [7]. A number of studies have suggested strategies to improve supplier performance such as raising the rate of supplier performance expectations, worldwide sourcing strategy, early supplier design involvement, supplier performance improvement rewards and direct supplier development [8]. Supplier development strategies involved creating competitive environments among suppliers, supplier assessment, feedback communication and supplier certification programs, promised current and future benefits, site visit and training program [9]. The involvement of buying firm in the supplier development programs of its suppliers help these firm meet objectives of company [10]. Several studies supported the positive effect of supplier development strategies on buyer and supplier performance improvements [11]

The study is aimed to answer the following research questions;

RQ1: What are the supplier development (SD) practices being followed/implemented in footwear industry in Pakistan?

RQ2: What are the gaps in SD practices in comparison with best practices identified indifferent earlier researches?

2 Literature Review

Supplier Development

The term "supplier development" was first used by to describe efforts by manufacturers to increase the number of viable suppliers and improve suppliers' performance. More specifically, supplier development has been defined as any effort by an industrial buying firm to improve the performance or capabilities of its suppliers. Few other researchers thought that supplier development is a joint effort of suppliers and buyers. Krause extended the scope and purpose of supplier development by defining it as: "Supplier development is defined as "any activity undertaken by a buying firm to improve either the supplier performance, supplier capabilities, or both" [12].

Ever since the moving work done by [13] in supplier development, research in this field has been flourishing. In order to identify critical factors for the success of any supplier development program, researchers have found out buyers methodologies to supplier development.

Supplier development may range from limited involvement such as supplier qualification and supplier performance evaluation, to more intense efforts like assistance with new product design and providing training to supplier's personnel [14].

Supplier Development Process

Two different approaches have been discussed in literature about the supplier development process. The first approach focuses on a four staged development process which starts from assessing the willingness and readiness of a supplier for change. The steps are mentioned as:

1. Assessing the willingness of supplier and readiness for change
2. Building commitment via collaboration,
3. Implementation of changes in systems,
4. Transform the supplier firm [15]

[16] mentions a seven step process in the article "Avoid the Pitfalls in Supplier Development" for supplier development. The seven steps for supplier development areas:

1. Identification of critical supplies
2. Identification of critical suppliers
3. Formation of a cross functional team
4. Meet with the top management of supplier firm
5. Identification of important or key projects
6. Outline agreement details
7. Monitor the progress and amend the strategies whenever or wherever needed

[12] discussed about the reactive approach rather than a strategic one for supplier development. The reactive approach identifies the suppliers whose performance can jeopardize the performance of buying firm in providing competitive products or services to its own customers. On the other hand, in case of

strategic approach, allocation of the resources are made for the purpose of supplier development in the areas that can and will provide the competitive edge to buying firm. However, these competing approaches about the supplier development have been analyzed by [17] on the basis of logic of rational efficiency and institutional symbolism.

Supplier Development Practices

Supplier development strategies vary widely, and may include supplier evaluation, feedback of supplier performance, raising performance expectation, supplier recognition, education and training for supplier personnel, placement of engineering and other buyer personnel at the supplier's premises, and direct capital investments by the buying firm in the supplier, etc. [18]. In this section, the strategies reported in existing literature will be summarized.

There are two types of supplier development practices which can be distinguished on the basis of the contribution of buying firm in supplier development initiatives [19]. External supplier development strategies or indirect supplier development activities are:

- i. Competitive pressure [19]
- ii. Supplier assessment and feedback [20]
- iii. Incentives to suppliers [15]
- iv. Long-Term Commitment [21]
- v. Higher supplier performance goals [22]

Buying firms use the external forces to encourage suppliers to take appropriate performance enhancement measures. Alternatively, direct supplier development activities are those actions where buying firm itself gets involved in activities which can improve the performance of the supplier [23]. Following activities have been identified as direct supplier development activities or initiates:

- i. Transfer of knowledge through trainings i.e. [24]
- ii. Supplier Plant visits [25]
- iii. Joint Actions [26]
- iv. Making Investments [27]
- v. Mutual Trust Building initiatives [28]

Indirect Supplier Development Activities

Following activities have been categorized as indirect activities of supplier development.

Supplier assessment and feedback

Traditionally, supplier assessment is the in-depth evaluation of supplier which includes quality, delivery, cost, technical, and managerial competences [29]. An important part of supplier assessment process includes providing evaluative feedback to suppliers. The feedback ensures that the suppliers are aware of their performance, clarifies the buying firm's expectation and provides the supplier with direction for improvement [30].

Competitive pressure

The buyer firm can use the competitive pressure on suppliers by maintaining the multiple suppliers for the purchase of any item or service being ready and able to shift to other suppliers [31]. The firm exercises this strategy by acquiring competitive prices from multiple suppliers/more than one supplier and makes a comparison of quoted bids as per pre-defined specifications and contracts to have the best buying price [32].

Long Term Commitment

Commitment means the readiness of buying firm and suppliers in maintaining a good long term relationship between them. Such relationships result in mitigating the risk and transactional costs [33]. It helps in saving time and cost, which would otherwise be utilized by buying firm to find out and scrutinize a new better supplier for its supplies [34].

Incentives to Suppliers

Incentives are offered to motivate suppliers to achieve better performances, is an effective strategy followed by buying companies. Incentives are granted according to the supplier's performance [35]. The incentives can be of any of below mentioned types like [36];

- i. Commitments or enhancing the business volumes
- ii. Offering a share in cost savings
- iii. More business in future
- iv. Global supplies contracts
- v. Technical support of advanced level
- vi. Supplier recognition programs

Establishing higher supplier performance expectations

Expecting a better improved performance from suppliers is another technique which can encourage the suppliers as normally they feel hesitant to take initiatives for the performance improvement and capabilities enhancement [37]. Only those suppliers should be retained by buying firms who are responsive to higher standards of performances [38].

Direct Supplier Development Activities

Following activities have been categorized as direct involvement activities:

Knowledge transfer

As per the knowledge based view (KBV), creating, storing and applying knowledge are the key roles of a firm [39]. Considering the importance of knowledge for a company, knowledge transfer is conducted with an objective to increase the capabilities of supplier's firm by transmitting the specialized knowledge to the suppliers [40], in their recent research study categorized knowledge into two types:

- 1- Explicit knowledge or information, which can be easily codified,
- 2- Tacit knowledge or know-how, which is difficult or impossible to codify, such as production knowledge.

Knowledge transfer activities under any supplier development program are usually contained in extending expert advice which can help these suppliers in enhancing the capabilities in product development, quality improvement, and process re-engineering, manufacturing and technological advancements [41].

Joint Action

Joint action is defined as the degree of interpenetration of limitations of organizations [42]. In the traditional purchasing, the responsibility of any task was assigned to only one party. But in recent times, some critical activities are conducted by both parties in a well-coordinated and fully collaborative manner.

Visits to Suppliers Sites

As already mentioned above, facility to visit the plant sites, allows both parties i.e. buyers and suppliers to have a better communication, culture sharing and providing a good opportunity to both parties to have better understanding of each other's business [43].

Making Investments

Many companies have started investing in the equipment, plant and machinery of their suppliers or give financial assistance as part of their supplier development program [44]. Researches indicate that suppliers can improve quality, speed up the product developments cycles and reduce inventories as result of these transaction-specific investments [45].

Trust building

Trust is defined as; “a willingness to rely on an exchange partner in whom one has confidence” [46]. Buying firm trusts in the supplier’s reputation, honesty, and ability [47]. A transaction-specific investment increases the dependence of both parties on this relationship and exposes them to higher risk and uncertainty. Therefore, in order to keep their interests safe against the dangers of opportunism, buyers and suppliers need to take measure to safeguard their business [48].

3 Data and Methodology

A descriptive case study was used to study the supplier development practices in Pakistan. Data was collected primarily from three sources i.e. in-depth structured interviews with the officials of company, documents and observation. The face to face structured interviews were conducted with company’s senior management and middle management to find the ongoing supplier development activities being followed by the company.

Secondary data was collected from the company’s archival records which were shared by the concerned officials. The complete database of interviews was maintained with recording to increase the validity of this study. Site visit to two suppliers were also conducted.

Case company in this study was a leading footwear retailer in Pakistan. For the sake of confidentiality we do not reveal the name of the company. The company is the leading brand in the footwear industry in Pakistan with the major market share of organized retail. It started its business in 1959 after opening first outlet. Today it owns around 480 outlets across the country as well as it suppliers to additional 3000 independent retailers through its wholesale network. It currently owns a market share of around 10% of total market which also includes unbranded footwear. The shoes sold by them are obtained from number of different sources. It includes local manufactured shoes by local shoe manufacturers and also imported from China. The company is managing the base of more than 220 suppliers; nationally and internationally, and has taken many initiatives to develop supplier capabilities and capacities in order to meet the rising demand for its products.

In the following section we detail the supplier development practices of our case firm.

Supplier Assessment and Feedback

Supplier assessment and feedback is fully implemented and rigorously followed practice in the case company. As per company’s representatives, it’s an effective tool which keeps the suppliers informed about their current performance and identifies future prospects for growth.

The process flow goes as mentioned below:

1. The suppliers are assessed during preliminary investigation which is based upon Company profile, previous performances in industry and core competencies.
2. Current resources of suppliers are assessed during initial evaluations which are related to man, machine, material, methods/process, tools and equipment’s.
3. Quality control & assurance procedures at supplier’s premises are evaluated.
4. Competence assessment for product development in terms of construction & design aspects.
5. Capability to deliver as per company’s requirement.
6. Financial implication and supplier’s capability to stand with it.

Systematic process is being followed by the firm for the purpose of vendor assessment. Vendors are assessed against the pre-defined criteria set by management. The supplier strategies are evolved as result of different assessments. For instance, supplier specific SWOT analysis is conducted to develop a score sheet mentioning the ranking of each supplier which further leads to help in development of supplier matrix to develop a supplier differentiation strategy.

Competitive Pressures

Case company follows a systematic procedure to build this pressure which is, a design of shoe is given to different suppliers who come up with the samples produced for final approval. The capability of each supplier is different from another, hence, the resulting product sample varies from supplier to supplier

in terms of quality (due to infrastructure and skill set of labor) and price (due to different production operational efficiencies). Once the sample of a supplier is approved, the entire planned quantity of that design is then supposed to be produced by the same supplier. In order to avoid any misfortunes, the suppliers are evaluated on criteria as already mentioned. The evaluation of individual supplier is shared and reviewed periodically.

Knowledge Transfer

Knowledge Transfer is being followed in footwear industry through different skill based training programs for labor and management development programs for Management cadre. However, management development programs are not very common and frequent but it’s an initiative which was started by the case company few years back to better equip the management teams of its key suppliers. It is not a regular part of routine knowledge transfer activities.

The objectives of these programs are as:

- a) Process improvement in supplier business
- b) Enhancing the skill set of labor working in manufacturing
- c) To introduce recent management techniques to better equip the management team in managing the operational and strategic affairs

As per the information shared, no certification programs are offered by the firm for supplier’s teams. Also, no advanced level and certification programs are offered currently, because of lack of resources on company end as well.

Joint Actions

Joint actions are taken by the teams of both parties (buyer & supplier) in situations where the deliverance of performance is critically important especially for buying firms and supplier is facing problem in the execution of the tasks or in fulfillment of commitments.

Higher Supplier Performance Goals

Case firm is determined to keep on improving the delivered quality of products by consistently improving the suppliers performance by setting challenging targets which is to set higher supplier performance goals so that the suppliers can show their willingness and commitment to supplier development programs and contribute towards enhancing their capabilities. In order to keep the suppliers under performance pressures, companies are used to set strict but realistic achievable performance goals. Possibility of achieving the goals is always considered before setting any such targets.

A scoring sheet is maintained (as mentioned in figure 1) to keep track of supplier’s performance against their KPIs and other objectives.

Vendor Scoring Sheet																						
vendors	comtd capacity/monthly	average capacity/comtd>	comtd capacity>100000	comtd capacity>40000	PU	EVA	Synthetic leather	PVC	leather	canvas	stitching	lasting	sole making	mold making	injection	financially sound	technically sound	payment terms>6	Working with Case	working since 5+years	Score	
V1	40000	X	X	X	X			X			X	X				X	X	X	X	X	12	
V2	125000	X	X	X	X	X	X	X			X	X			X	X	X	X	X	B	X	13
V3	150000	X	X	X	X			X	X		X	X	X		X	X	X	X	B/LO		14	
V4	20000	X			X			X			X	X					X	X	X	X	9	
V5	12000	X			X		X	X			X	X	X		X		X	X	LO	X	10	
V6	300000	X		X	X	X	X	X			X	X	X		X	X	X	X	LO	X	14	
V7	30000	X	X		X	X	X	X	X	X	X	X			X	X	X	X	LO/EX		14	
V8	300000	X	X	X	X				X		X	X	X		X	X	X	X	X	X	15	
V9	8000	X			X			X			X				X	X	X	X	B		8	
V10	13000	X	X		X			X							X			X	X	X	7	
V11	9000	X			X			X			X	X						X	X	X	9	
V12	6000	X									X	X				X	X	X	B		7	
V13	15000	X									X	X				X	X	X	LO		7	
V14	8000	X						X			X	X				X	X	X	LO	X	8	
V15	120000	X	X	X	X										X	X	X	X	LO	X	9	
V16	6000	X			X		X				X	X				X	X		X	X	8	

Figure 1 Supplier Scoring Sheet

The above diagram discusses several vendors of our case firm; names of the vendors have been kept confidential. Vendors have been evaluated against various aspects such as committed capacity month wise, seasonal capacity (summer/winter), leather, stitching, lasting, canvas, technical and financial soundness and others are allocated scores. All the categories marked as “X” indicate relative importance of these aspects. Furthermore, it highlights that the vendors meets the given criteria’s and identifies which vendor is best suited. The higher the score, the vendors’ performance is considered acceptable.

Suppliers Plant Site Visit:

Company officials visit supplier production facilities with different objectives. Generally, their visits have been classified as follows based upon objective of visit:

- i. Initial Assessment Visits
- ii. Routine Visits
- iii. Special Visits
- iv.

Making Investments:

The objectives of investing in the business of supplier can be various. It can be to enhance the production capacity or process improvement or achieving the operational and production efficiencies. But this is not very common practice in footwear Industry. They have not yet undertaken any such venture with any of its suppliers.

Long-Term Commitments:

Long-term commitments are generally made with the top performing suppliers. As mentioned earlier, the performances of all the suppliers are being regularly monitored and evaluated and based upon these evaluations, all suppliers are ranked. The top ranked suppliers are then selected based upon their skill set, capacity and capability to have such kind of long term commitments.

Incentives to Suppliers

Incentivizing the performing suppliers is an effective way to award the good performance and motivate the others to keep striving to achieve the rising benchmarks. Furthermore, they have set performance criteria in shape of Key Performance Indicators (KPIs) and any supplier performing good on these KPIs, can qualify for the incentives. Normally, these incentives are awarded in shape of committing more business than current level of business, appreciation certificates and recreational trips.

Awarding suppliers by giving more business is most common way of incentivizing the good performing suppliers and it’s considered as one of effective techniques. Since, the factories of majority of the suppliers are not operated at full capacity level; suppliers always look for more business opportunities in shape of more orders from existing companies or even from other competitions.

Recreational trips were common in past but these are no more in practice and are replaced in shape higher incentives linked to achieving the production and lead time targets to enhance the effectiveness of being incentivized.

1) Trust Building

Customer trusts in the supplier’s honesty, goodwill, and competence. To safeguard themselves against the hazards of opportunism, both parties need to adopt some methods for safeguarding transaction. In order to win and build trust of supplier, following factors are important:

1. Ensure profitable business now and in future
2. Don’t make false commitments.
3. Always fulfill your commitment
4. Work in close coordination and

5. Extend full support to supplier in continuous process and performance improvement.

When suppliers win the trust of company, they start business. If any supplier fails to fulfill his commitment, the future business prospects may fall down and repeated failures will definitely take him out of business with the company.

5 Discussion

The case study provides a detailed analysis of how the best supplier development practices are being followed and implemented in footwear industry in Pakistan and how these practices are helping local player in improving the supply and quality of products over years of experience. In this section, we will try to revise the supplier development practices as highlighted in literature and their practical implementation as found in our research in the leading Footwear Company.

For the purpose of this section, all practices have been categorized into three categories:

- i. Practices which are fully implemented in industry of research
- ii. Practices which are not followed/implemented
- iii. Practices which are partially implemented

There are practices which are properly followed and implemented in industry as highlighted in literature. For example in case of Supplier assessment and feedback which has been highlighted as pressure tactic to keep the suppliers on self-driven learning initiatives with full support from the focal firm and quality, delivery, cost, technical, and managerial competences have been identified as parameters for the evaluation of the supplier's performance in the literature. In our case, company is using it as pressure tactic to identify the top performing suppliers which are then awarded with more business and complex projects. Whereas, bottom suppliers are warned due to their performance and often are penalized with low business volumes or sometimes no business at all. Also, the tools which are used by company for evaluation, considers all the elements of suppliers evaluation as identified in literature.

Getting advantage from performance evaluation, the SD practice of competitive pressure and long term commitment comes in play. As mentioned in literature, competitive pressure is used to get the competitive prices which would result in forcing the suppliers to improve their overall performance so that they can quote better prices to stay competitive. It was observed during our research that this practice is slightly overused to manipulate the suppliers rarely to force them to agree on odd terms. However, long term commitment of more business of higher volumes and different categories, is used to award the top performing suppliers. It also happens sometimes, that top performing suppliers get the agreements for new categories on their own terms instead of the terms laid down by focal firm.

Practices which are not implemented mainly include is the investment in supplier's facility. Many companies have started investing in the equipment, plant and machinery of their suppliers or give financial assistance as part of their supplier development program Moreover, investments can also result in the improvement of mutual relations by having more efficient and effective communications which can result in shortening of product development phases and reduced procurement cost.

The practices which are partially implemented are well explained in below section of identified gaps.

Lack of certification of programs

Currently no certification programs are being offered which should certify the supplier or their team members especially for technical skills. Secondly, skill enhancement training programs for the labor of suppliers are very limited and less frequent. In earlier researches, researchers have talked about the transfer of tactical and product knowledge [49] but practically more of the focus was found on developing soft skills people.

Lack of technological initiatives

Need for improvement in technology in production is felt very badly. The industry is still heavily relying on manual hand done jobs by labor which is generally found un-skilled most of the

times. Labor is trained mostly on the job where they improve their skills with the passage of time following the approach of learning by making mistakes.

Limited scope of supplier's incentive

Six types of incentives have been identified in literature

- i. Commitments or enhancing the business volumes
- ii. Offering a share in cost savings
- iii. More business in future
- iv. Global supplies contracts
- v. Technical support of advanced level
- vi. Supplier recognition programs

Currently, the scope of incentivizing the suppliers is limited to the extent of awarding more business in coming season or Year which is one form of incentivizing and effective as well at moment but as the industry is growing and moving towards maturity, more techniques of incentivizing the supplier's need to be introduced which can be monetary or non-monetary in nature.

Investment in Supplier's ventures

This study found out that this SD practice is almost non-existent as not much of examples can be quoted under this context. Fairness in selection to be qualified for investment can be another area of concern which is beyond the scope of this study but it has an impact on supplier development efforts.

Manipulative competitive pressure

It's a very effective technique to keep the suppliers on self-driven improvement initiatives thus a very careful approach is needed to exercise this SD practice in its true spirit as identified in earlier researches where the pressure of competitive bidding must lead in encouraging the suppliers to take corrective measures to improve their performance while being competitive at the same time in case of quality or product and service or any upon any other criteria deemed important by buying firm [50]

Limited Joint Actions

Researchers identified three sort of joint actions which are supposed to be conducted by focal firm and the supplier, which are as;

- i. Joint action is considered to be an important transaction-specific supplier development activity [51].
- ii. It's a non-equity way of governance where both firms build support and cooperate for the performance improvement of both the parties [52].
- iii. Buyers may opt to participate in the management of supplier's operations and in designing of quality controls and delivery system [53].

Although, their practicing this strategy as well for the improvement of supplier's performance by having a financial arrangement for its suppliers to support them in the management of their cash flows but there is much room available to widen the scope and introduce more activities under this joint action program.

6 Conclusions

Historically, supplier development programs were used to be composed of common strategies for all suppliers and were not cautious of fact related to supplier's strengths, weaknesses, potential and willingness.

For the purpose of evaluating the supplier development initiatives in footwear industry, the supplier development strategies in the existing literatures have been reviewed and classified mainly into two categories: strategies that directly involve buying firms in the activities and strategies that indirectly involve buying firms in these activities. Comparisons of these strategies are made with the current

strategies which are being used by the leading footwear players currently. Comparison revealed that almost ninety percent strategies which have been identified in literature, are in practice by Industry players' fully or partially, the scope of which needs to be enhanced. Only one strategy "Making Investments into supplier's venture" is found very selectively in practice which needs to be taken as opportunity by the players to build strategic and long-term exclusive relationships with suppliers. Exclusivity, will bring another competitive advantage for players which is very much missing today in this industry. The current study is the first study conducted in the context of Pakistan. Future research can be done cross industries to ascertain the supplier development practices in different industries across the Pakistan.

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