



**REDUCE BUSINESS  
RISK WITH  
COLLABORATIVE  
PROCUREMENT**

**How to gain competitive advantage,  
protect your brand and drive  
growth through integration**

## INTRODUCTION

Businesses don't function without the suppliers who support them. They are increasingly reliant on third-party providers to access non-core competencies, address labor shortages, streamline operations and stay competitive. However, too few companies sufficiently scrutinize prospective suppliers to ensure they are not only up to the task, but also have the fiscal integrity to deliver the work and a robust work history that demonstrates they have delivered on time, to their estimated cost and met clients' quality standards.

To mitigate risk that can be introduced when bringing a supplier on board, and gain an advantage in an increasingly challenging global environment, businesses must ensure the checks they undertake when evaluating a supplier exceed basic compliance.

All too often the focus is on a single discipline, such as safety performance.

However, risk can manifest itself in many ways from financial, environmental and social impacts. This also applies to suppliers that you have a history with.

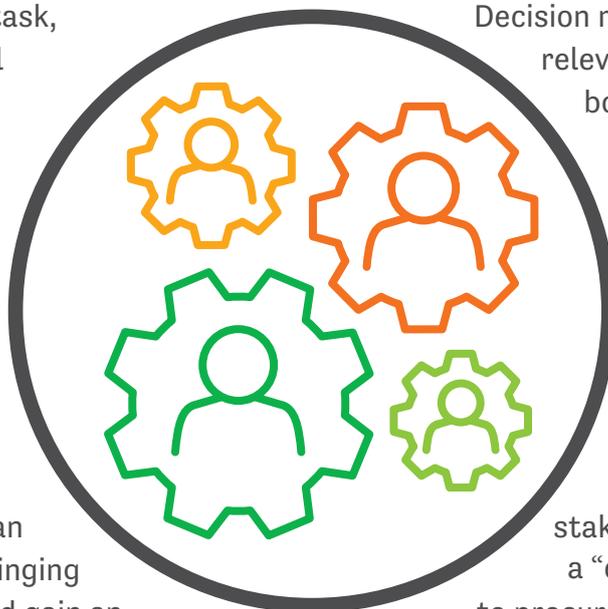
Having met specific standards in the past does not always indicate they will perform and deliver consistently in the future.

Decision making should involve all relevant internal colleagues both at the outset of any process and throughout the duration of a supplier relationship.

A collaborative, integrated approach to evaluating and managing suppliers, where stakeholders together use a "community approach"

to procurement, increases the chance of success and reduces the likelihood of risk in third-party contracting.

In this paper we explore the dangers of insufficient evaluation checks, problems caused by not working with peers and how you can address them.



## WHY IT OFTEN GOES WRONG

There are two key problems in the way many businesses go about evaluating potential suppliers:

**1** They only use the most basic compliance checks which, in many cases, are lagging or historical and in some cases it's easy to manipulate the data or evidence requested.

**2** Selection is made in isolation sometimes applying the “lowest cost” mindset, instead of collaborating with internal colleagues who may possess crucial expert knowledge or have historical experiences to feed into an objective purchasing decision.

### Problem 1

**Basic compliance checks** simply means asking suppliers to confirm they meet minimum industry or regulatory requirements. It's often a check-box exercise where the supplier is asked to self-report using an honor-system principle. The information provided by the supplier may not be subject to any detailed validation, which can lead to flawed decision making. This approach has the potential to use information that may be out of date, lack relevance or simply does not belong to the supplier.

For example, a construction sector business that can prove it meets minimum health-and-safety standards provides prospective buyers with very limited oversight of their actual capability, reliability or capacity. >>



## WHY IT OFTEN GOES WRONG cont'd

### Problem 1 cont'd

<< Minimum compliance oversight does nothing to protect the company from a much wider range of risks such as their ability to complete a job to the quoted price, or show if they have a history of providing low costs then “bumping” them up by making claims. Before engaging a supplier, and during the relationship with them, you must consider a wider range of issues that may impact on their – and so your – brand equity. These might be issues around sustainability, quality or potential use of modern slavery.



Protecting your business from these potentially damaging risks, requires greater scrutiny. It is essential that any supplier is subject to continual assessment so that an accurate overview of their capability, capacity and reliability is determined. For example, when pricing for a contract, are they delivering with predominantly core workers who are based in-house or are they totally reliant on the use of other subcontracted companies? Without detailed analysis, their true capacity will never be understood. >>

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## WHY IT OFTEN GOES WRONG cont'd

### Problem 2



#### << **Choosing a supplier in isolation**

makes addressing the potential pitfalls identified in problem one much more difficult. Not involving peers from other relevant departments in the decision-making process means that as a buying organization the likelihood of considering everything that would constitute solid due diligence is vastly reduced. For example, an integrated collaboration where the finance team focuses on fiscal stability, procurement on cost-effectiveness, engineering on quality, operations on

health and safety and timeliness, and corporate responsibility on sustainability will provide a much higher level of supplier transparency and increased levels of assurance.

Applying this approach to every single contract is, however, simply not sustainable, but using a mechanism such as contract value, supplier spend or risk specific to the supplier activity, provides greater focus in the right area. >>

## WHY IT OFTEN GOES WRONG cont'd

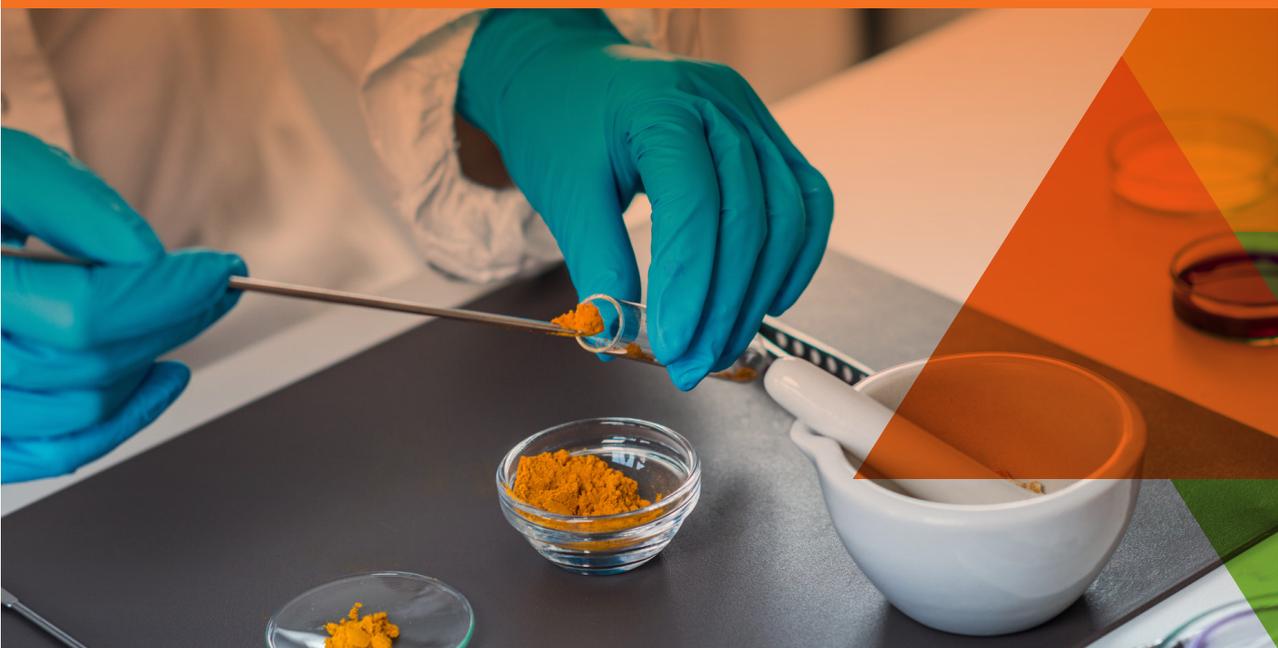
### Problem 2 cont'd

<< Deloitte considers damage caused by isolated decision-making in its report *Supplier and service provider risk management: Addressing food safety risks along the supply chain*. They argue: “Food safety should be driven from the enterprise level to ensure it’s aligned to business objectives. However, many companies manage food safety at the functional level... For example, procurement might engage a new spice supplier without the food safety team’s evaluation of the supplier’s mitigation of the risk for, say, Salmonella contamination.”

Academics Gopal Kumar and Ravindra Nath Banerjee argue in their 2012 paper

*Collaboration in supply chain* that it is vital both internal and external teams carry out joint planning and resource sharing to achieve a competitive advantage. It says different actors bring complementary capabilities that help to “achieve their common aspirations and goals in a competitive environment that cannot be achieved individually.”

A study, published in the *Journal of Operations Management* in 2010 concluded that supply chain collaboration, by which it means leveraging the resources and knowledge of both suppliers and customers, has a “bottom-line influence on firm performance.”



## THE PROCUREMENT CHALLENGES

You're probably already sold on the value of joint working and the limitation of risk through improved supplier scrutiny – so what's happening?

There are a number of challenges faced by procurement professionals. One is that they are frequently approached to organize a contract for a supplier who has already been given the green light to start work or worse, has already started on site. Another is that they're under pressure to select the cheapest option, irrespective of any other issues that may be present.

In 2019, research by Mike Ford from Avetta, an organization that helps the world's top companies to identify and minimize supply-chain risk, found that poor levels of interaction between internal departments were prevalent especially during pre-tender evaluation and post-

**“ The low-cost mentality, where work is confirmed simply by using the lowest price, increased the probability of project failure”**

work analysis of small and micro contractors in the UK construction sector. The research found the biggest disconnect was between the safety and purchasing departments. This was despite it being recognized historically, and by the sector as a whole, that the low-cost mentality, where work is confirmed simply by using the lowest price, increased the probability of project failure. >>



## THE PROCUREMENT CHALLENGES cont'd

<< Another challenge for procurement is that it's not always practical or possible to involve internal colleagues. As one procurement director puts it, the engagement of other departments in supplier due diligence, evaluation and assessment before and after any contract award, depends on three factors:

- ▲ The professional conducting the process and their personal philosophy on engaging other departments
- ▲ Organizational culture
- ▲ Timeframes available to conclude the sourcing process.

The more sophisticated companies do undertake some cross-departmental collaboration but there are often difficulties that damage the effectiveness of the process, such as a lack of consolidated information or a silo mentality within



the business. In these scenarios it takes persistence, persuasion, emotional intelligence and objective evidence on behalf of the procurement professional to involve colleagues and convince them of the value of collaboration. And it is this joint working that ensures the process leads to the selection of the most suitable supplier.

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## STRENGTH IN TEAMWORK

Regardless of the challenge faced by your business, experts agree that joint working, together with a more coherent and strategic approach to risk and compliance management, will benefit any business.

Avetta helps companies mitigate risk specific to their supply chain and facilitates communication and collaboration with internal departments. It helps them to work together on decisions and performance reviews, using technology to increase efficiency and effective decision making based upon 24/7 access to individual supplier information. This information is contained within the Avetta platform which is subject to continual updates so decisions are made using the most accurate and timely data.

The platform provides a cradle-to-grave supplier evaluation mechanism that covers all three key stages of the supplier lifecycle.

- ▲ The pre-qualification process that ascertains if a supplier is suitable to bid for a job
- ▲ Evaluating the successful vendor during delivery of the contract
- ▲ Post-contract review

While individual projects require a lead manager, access to relevant technology ensures all internal stakeholders have live, on-demand access to the platform. This supports decision making, performance management and the rapid resolution of issues. >>

## STRENGTH IN TEAMWORK cont'd

<< Departmental decision-makers are typically involved to varying degrees at different stages of the process or likely to focus on distinct aspects of the deal, so they can dip in and out when most required. For example, while procurement focuses on value for money, colleagues in health and safety, engineering and operations can concentrate on worker safety, quality or delivery deadlines.

Each project can be configured to suit the key requirements of a given contract or job, moving beyond cost to a strategic evaluation by bringing all stakeholders together in the decision.

Mike Ford, Avetta's global lead in environment, health safety and sustainability, says: "Ultimately, taking a joint working approach means the iron triangle of procurement requirements – time, quality and cost – are far more likely to be achieved."

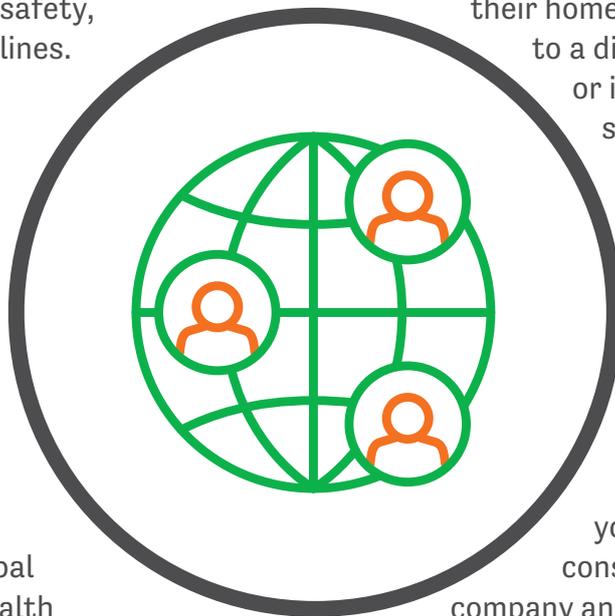
The system makes it easier for stakeholders to offer their expertise and collaborate with full transparency, essentially building

a relevant buying community within a company to manage any given project, mitigating risk and helping to increase the success rate of any contractual relationship.

The platform is available in 23 languages and can be set up to either assess suppliers by the rules, regulations and legislation of their home country or matched to a different national or international standard of quality or working practice.

"It means, for example," says Ford, "regardless of whether a team is sourcing a supplier in a developed country or an emerging economy you can ensure they're consistently meeting company and contract requirements as defined by an organization's corporate goals."

Avetta has multilingual staff based in key strategic locations in Europe, North America and Asia Pacific. All personnel have the local knowledge to assist clients and suppliers manage supply-chain risk and performance management more effectively. >>



## STRENGTH IN TEAMWORK cont'd

<< At the request of their client, suppliers connect to and complete a targeted set of requirements. Proprietary technology removes the need for them to complete vast question sets and RFPs in varying formats, a common source of frustration to SMEs and larger companies alike.

Practitioners and academics agree detailed analysis of suppliers and integrated decision making lead to improved supplier selection. Partnering with sector experts and effective use of technology mean that this is not only achievable but can become the standard approach for medium and large organizations alike.

Creating value in your supply chain while simultaneously mitigating risks to your company requires a coordinated effort between multiple stakeholders in the business, including supply chain and procurement personnel, legal, compliance, and finance. Vetting potential third-party relationships is a critical first step to mitigating risk to your organization, but it's only a first step. By working together across the business, these various stakeholders can design a strategy for using third-party relationships to increase value within the supply chain. Companies that succeed can both protect their brands and drive business growth.

## MORE ABOUT AVETTA

Avetta connects the world's leading organizations with qualified suppliers, contractors and vendors.

We bring unmatched visibility to your company through cloud-based technology and human insight.

As a result, we foster sustainable growth for your business, as well as your supply chain. Our SaaS subscription software is used by 95k active customers in over 100 countries.

To find out more visit [avetta.com](https://www.avetta.com)

