

Bp angola supplier relationship management



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Introduction

The results of this study are based on a qualitative research conducted in BP Angola with Procurement and Supply Chain Management professionals, Suppliers Performance Leaders (SPL) from Operations Department and Suppliers.

The selection of the interviewees was based primarily on their involvement in supplier management and their availability at the time when the researcher was gathering data.

The researcher intended to interview at least nine people, three from each group (Procurement professionals, Suppliers Performance Leaders and Suppliers), since three people from each group had been deemed as an appropriate sample size. A period of two weeks was set for the completion of the interviews. Therefore, at the end of the two weeks period, only seven interviews, not nine, were completed. Three from Procurement department, two suppliers and two from BP Angola Operations Departments (end users of supplier services or Supplier Performance Leaders). The Researcher attempted to obtain confirmation for the interview with the third supplier, but for reasons unknown until today, this supplier never confirmed or rejected the invitation, although the constant follow up with telephone calls. The third interviewee from the End User group had to leave the country due to unplanned compassionate leave. Although the reduced number of interviewees, the Researcher decided to keep the sample size at seven, as the key stakeholders involved in supplier management in BP Angola were included in the interviewed population.

As may be inferred from above, this chapter presents the results of the interviews conducted and also the internal BP Angola document reviewed. There are several purposes to doing so. The first is to examine the current methods and systems in place in BP Angola (Exploration and Production) for Supplier Relationship Management, second identify whether the current Supplier Relationship Management (SRM) process is adding value. Third is to determine whether or not, as earlier hypothesized, these methods and systems for supplier relationship management post contract award were effective and compare them with best known practice models. The fourth and final purpose is to evaluate the validity of the earlier stated hypothesis pertaining to the implementation of Supplier Management strategy.

The main themes that emerged through the research are vastly consistent with the reviewed in the literature. These themes are definition, business drivers leading to supplier relationship management, value that can be derived from proper supplier relationship management, types of relationships, forms of implementation, benefits, challenges and improvements. However, the research shows that there are some differences between the literature and the case under study especially around the understanding of what supplier relationship management really is, modes of implementation, as well as the challenges. The key themes that emerged from the research and the identified differences will be discussed throughout this chapter.

Supplier Relationship Management is a very broad topic and it was not possible to cover all aspects of this topic in this research, however, the

Researcher tried to cover as much as possible the key elements pertaining BP Angola SRM, challenges and benefits that can be obtained through SRM.

Supplier Relationship Management in BP Context

The main objective of this research was to investigate and explore the effects of various dimensions of supplier relationship management (SRM) through effective contract management at BP Angola (Exploration and Production) in order to improve added value. More specifically, this study aimed at analyzing the perception of various internal stakeholders in BP Angola about the concept of Supplier Relationship Management, who should own it, interface between internal stakeholder in BP Angola with suppliers, type of relationships that BP Angola maintain with its suppliers and to examine the issues associated with the implementation of Supplier Relationship Management initiatives from Supply Chain Management perspective. Furthermore, the purpose was to increase the understanding of Supplier Relationship Management approach and its benefits.

As may be inferred from above, this Chapter explores and explains the relationship between the contracting strategy used to establish the relationship between BP Angola and its Suppliers and what value can be derived from this approach. Before addressing this connection through the analysis of primary data, it is worth explaining the Supplier Relationship Management in BP context.

Over the past several years, there has been a growing interest in BP to develop a strategy that helps to optimise the relationship with its key suppliers. In today's highly competitive environment, there is intense

pressure to improve the efficiency and effectiveness of procurement activities. BP is implementing globally a segment defined practice for procurement, to drive effective management of suppliers and segmented spend across major categories of goods and services called Category Management. This approach is supported by key four pillars. The first pillar is Category Management Planning, which defines spend categories the business needs to focus on, defines an integrated plan to address the prioritised categories; the second pillar is Market Sector Strategy, which identify strategic levers to be pulled to maximize value from the supply markets and provides overall direction for a market sector. The third pillar and one of the most used by the Local Business Units is Strategic Sourcing, the same as the previous pillar identify the strategic levers to be pulled to maximize value from the supply markets, define approach to the supply market, negotiate and deliver contracts in line with the strategy. The last but not least is the Supplier Management, which rigorously manage supplier performance with realistic key performance indicators (KPIs), determines the appropriate management approach and structure so that supplier performance meets or exceeds BP's stated expectations and goals.

This last pillar of the Category Management strategy was the focus of our primary data analysis, as it is where the Supplier Relationship Management takes place.

However, BP Category Management approach seems to contradict with O'Brien (2009). The four pillars that O'Brien (2009) referred to support the Category Management strategy are: breakthrough thinking, customer focus, cross-functional teams, facts and data supported by three foundations like:

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strategic sourcing, managing the market and driving change. O'Brien, 2009, argues that Supplier Relationship Management is big enough to be a concept entirely separate from Category Management. However, although these foundations and the pillars are different; the principles of Category Management are the same.

According to O'Brien, 2009 in his book "Category Management in Purchasing", Category Management can deliver dramatic results to organizations in different economic and market conditions and can help to respond positively to a variety of different business needs and drivers.

The former CEO of the Chartered Institute of Purchasing & Supply, Ken James, stated that:

"Category Management when deployed effectively delivers many benefits to the organization through optimizing the value that can be derived from the supply chain. It gives a clear structured framework that can be applied across the organization's purchasing requirements." (O'Brien, 2009)

Although the academics and practitioners tend to agree on the benefits of Category Management, however the secret of the success reside in the implementation of that strategy.

IntOpsR1 supports the view:

"We pick a strategy and we drive everyone towards execution of that strategy and then something will happen and adjust our strategy and make an intervention. Another strategy appears instead of developing existing strategy, we tend to go to one size fit all, we tend not to take into account

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the unique circumstances of the locations. The success of a strategy is not the type of strategy you choose, but it is mainly linked to how you implement it.”

BP Group in the interest of determining how to develop more effective relationship with its key suppliers has enlarged the focus from formal contracts to more behavioural and relational approach in the current Category Management approach. The Supplier Relationship Management approach and its implementation is discussed in greater in the section below.

Supplier Relationship Management – Approach and Implementation

Most respondents declared that they are not familiar, even though aware, of an entirely separate Supplier Relationship Management initiatives being undertaken in other business units other than the Supplier Management approach under Category Management initiative which is being implemented globally in BP, and therefore did not provide insight into similarities or differences between the different business units. However, the review of answers to other questions, other documents, company data from global Category Management initiative implementation revealed that the initiatives are broadly similar in strategic intent in the sense that they respond to the strategic objectives of BP to establish an appropriate supplier relationship management approach and structure to ensure that the performance of the suppliers are meeting or exceeding BP’s stated expectation and goals. However, the data also revealed that there is not a cohesive view of the baseline activities undertaken to achieve this BP strategic objective stated in the Supplier Management. Before discussing this difference, we will look at

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the general approach adopted to implement Category Management and the principle that underlines the Supplier Relationship Management under supplier management in the Category Management. The primary data revealed that Supplier Management is implemented through four steps. The first step is validation of the appropriate type of relationship with the supplier. The aim is to ensure delivery of the value objectives identified in the Sourcing Strategy and to focus the resources on suppliers who have the greatest impact on BP's performance. Suppliers are prioritised based on spend and their criticality to the business. Suppliers are categorised into four levels of relationship types, which require increasing levels of BP effort and rigour to manage: Transactional, Managed, Core and Strategic. Transactional are those suppliers where performance has limited impact on day-to-day operations, low expenditure and minimal opportunities for Total Cost of Ownership (TCO). However, this is similar to what Kraljic, 1983 called in the Product Purchasing Matrix as Non-Critical Items (low profit, low supply risk). Managed are those suppliers with commodity services/materials, with moderate volume spend and with some opportunities to address TCO through improved supplier performance. In the Kraljic Model, this is similar to Leverage Items (high profit, low supply risk). Core are those suppliers with major impact on core processes, high spend, high risk, can provide competitive advantage and opportunities for TCO reduction, value creation and risk mitigation may exist. In Kraljic model this is similar to Bottleneck Items. Strategic suppliers are those which are critical to BP's core processes; can stop operations if issues arise, highest volume/highest expenditure or highest risk, can provide competitive advantage, significant Total Cost of Ownership reduction/value creation/risk mitigation opportunities may exist.

In Kraljic model this is similar to Strategic Items (high profit impact, high supply risk). This, therefore, brings clarity on what suppliers BP needs to focus on. IntSCMR2 claims:

“ if we keep using Category Management as a base, also helps to determine the strategic, core and managed suppliers and helps to determine what type of relationship are you going to have with them”

Dyer (1998) supports the view that with limited resources that firms has to focus on supplier relationship management, it is important that companies segments their suppliers based on criticality of the services or goods provided and impact on bottom line revenue. Gordon (2008) added, with so many suppliers companies cannot possibly manage performance plans for every single supplier of their supply base. Firms should concentrate on strategic suppliers who are integrated business partners as well as core suppliers, who require integration and development plus other suppliers that may supply a high-cost or high risk services, (Gordon, 2008).

Gordon (2008) concluded that supplier segmentation process is a starting point for discussion among Procurement and other stakeholders about which suppliers may have the greatest impacts on the company's own performance, which suppliers harbour the greatest potential risks, and which suppliers need to be measured, monitored, or improved. Supplier segmentation also helps identify supplier relationships that should be targeted for termination (Gordon, 2008).

The second step is establishment of Supplier Relationship Management governance structure. The aim of this step is to define the roles,

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responsibilities, accountabilities and decisions rights so that they are known and understood by all participants from PSCM, the End User and other Functions. This step reinforces the company standards defined under company's code of conduct and how each individual must behave individually or collectively.

According to BP process and procedures for Category Management, the supplier management governance structure exists to ensure that suppliers comply with the contracted service levels and to provide assurance of the supplier's performance. The governance structure also ensures that appropriate management resources are being allocated in accordance with the importance of the supplier to BP's business. This also helps to establish an accepted structure for the management of risk and escalation of issues within BP and supplier organisation. IntSCMR3 claims:

“ I think Category Management model is the way forward. It defines what everybody should be doing and what the relationship with supplier should be, which is fantastic”.

O'Brien, 2009 supported this view when argues that Category Management helps to provide structure to supplier management and define roles and responsibilities for the supplier relationship management.

The third step consists of developing and agreeing performance metrics based on value objectives. The targets for performance are reviewed annually to promote year-on-year improvement. Qualitative and quantitative data is collected, collated and reported through the communication channels established by governance structure.

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However, the legal contract between BP and supplier does not state BP's intent to implement Supplier Management through Key Performance Indicators (KPIs) on the scorecard in order to improve supplier performance year on year through improving safety, reliability and efficiency and thereby reducing Total Cost of Ownership.

However, respondent IntSCMR2 contended that BP treats its suppliers equally regardless the distinction that BP Category Management process says.

IntSCMR2 claims:

" We actually treat our strategic, core and managed suppliers pretty much the same, the only change we do is the number of meetings we have with them per year and actually the discussions are the same."

However, IntSCMR2 argues that even the process of setting up the key performance indicators is not consistent with what is promised in the Category Management process. IntSCMR2 claims:

" I think even more fundamental than that, on my previous role, I have seen examples where a billion dollar contract we defined the KPIs and Metrics before the contract was agreed and actually the business did not understand the KPIs and the Metrics, you do not understand why they are there in the first place and do not understand how to measure them, the contractor does not understand them and does not know how to measure those KPIs"

Respondent IntSCMR2 arguments are in line with Cai et al. (2009), when he argues about supplier performance management scorecard. Cai et al.

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(2009), states that many companies pursue supplier performance management as the quest for the perfect supplier scorecard. Companies believe that if they get the right metrics on the scorecard, then supplier performance will improve. Cai, et al. (2009), added that supplier performance management involves more than supplier scorecards, which are only one element of the process. The success on supplier performance improvement through supplier management depends upon putting an effective business process in place (Cai, et al., 2009).

The last step is to ensure consistent and rigorous management of performance to assure delivery against targets. The performance of supplier and the relationship is reviewed and tracked at set intervals against the stated objectives and goals. This step is intended to make interventions as required and performance is monitored against improvement plans and the lessons learned are fed back into the strategic sourcing process for the next contracting cycle. This step also defines the frequency of meetings depending on the relationship type defined at the first step. Strategic suppliers quarterly performance review meetings are required at business unit level, of which two performance review meetings have an additional strategic focus with executive level management in attendance (or can be separate executive relationship management meetings if required by specific business unit). For Core suppliers BP process aims for quarterly or semi-annual meetings and annual or ad hoc meetings. However, IntOpsR2 contended:

“... looking at Key Performance Indicators during the Performance Review Meetings is retrospective. The constructive way of doing this will be to look

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of what we need to do to get things better. It is looking forward and not backward”

Good supplier performance is a key driver in enabling companies to achieve performance excellence. But for the author, the question still remains, how BP Angola can effectively influence a good performance of its suppliers?

Type of Supplier Relationships

Wagner, 2002, argues that numerous internal and external factors have an impact on the type of relationship company maintains with its suppliers in the supply chain. The external factors are the environmental factors and characteristics of the industry. The internal factors that affect supplier relationships include interpersonal factors, disposition of the company, other company-internal factors and, in particular the type of service to be contracted (Wagner, 2002)

Oil and Gas industry is a capital intensive with very high cost contracts, high risk and high technology where only few suppliers are specialized in certain strategic services. Most of these suppliers tend to dictate the rule in the relationship.

This view has been evidenced during the research interview.

IntSCMR3 argues that relationship with the larger suppliers who have very high technical services like Drilling Rig service providers, BP struggle to maintain a collaborative relationship, as those suppliers tend to govern the relationship and dictate the rule. IntSCMR3 claims:

“ for example with tendering for Drilling Service for a new exploration block in 2010, we developed a scope of work which was very shiny, gold where only two suppliers could provide it. The supplier we selected to negotiate with had several barriers for negotiation and we were forced to pay these vast billions of dollars, which is a lot of money. We went through a number of negotiations with this supplier and we felt we were going to a point where we were achieving some degree of value and they turned around and said that is it. If you want this service, this is what will cost you. It was three or four times higher than our estimate. I think we tried to be collaborative with our suppliers, but I think because of the characteristic of the industry - high technology, high risk, we could not develop a good type of relationship.”

Although all the seven interviewees knew what supplier relationship management was in term of concept and are all involved in active supplier/customer relationship management, however, the viewpoints are different around the type of relationship that BP Angola maintains with its key suppliers (strategic suppliers).

While IntSCMR3 believes that BP Angola maintains collaborative relationship with its key suppliers and arms-length relationship with non-strategic suppliers, the two PSCM respondents do not agree with this view. IntSCMR2:

“ I think it is difficult to generalise across the board, but in overall it is arms-length/transactional relationship BP Angola maintains with the strategic suppliers. Based on my experience and in what I have seen, particularly on project side it is definitely an arms-length/transactional relationship”

IntSCMR1 supports this view:

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“ The focus should be on strategic and collaborative approach but the reality shows otherwise. Key suppliers’ perception and behaviour is to look at BP as exploit. Because of the criticality of the service/ material they provide and high switch cost, BP will need to invest to change or equilibrate the power in the relationship.”

It is clear from the primary data collected from the review of the internal literature within the company and the data obtained through the interviews that BP Angola sees suppliers as a critical resource and as a source for competitive advantage. BP as global company seeks to structure its supplier portfolio and collaborate with its key suppliers in such way that they can take full advantage of the potential that these suppliers can offer (BP PSCMcp Handbook; Category Management - 2010).

While BP Leadership believes that the current Category Management approach can create more flexible, responsive relationships thereby improving BP’s performance, however, the Supplier Management under the Category Management approach does not describe the model of relationship to have with different service providers. Apart from the numbers of meetings per year to have with strategic, managed and transactional suppliers, there is no difference in the approach in relationship with these suppliers. The type of relationship adopted for strategic or non-strategic suppliers is a subconscious approach rather than a defined strategy under BP relationship management approach.

Interestingly one of the two suppliers interviewed argued that BP Angola maintain “ fantastic working relationship” with his company, while the other

believes that BP Angola relationship with his company vary from arms-length to collaborative.

This view is supported by IntOpsR2:

“ It ranges from Arms-length to collaborative. When we started the contract we were in position of conflict and moved to cooperation, where we build the trust in the relationship and we are now moving to more collaborative way of working.”

The important observation made at this stage was that when all factors and their weightings are taken into consideration, the supplier/customer relationship that results can be plotted along a continuum ranging from adversarial/arms-length relationship to long-term strategic partnerships (Dyer et al., 1998; Wagner and Boutellier, 2002.)

Drivers and Benefits of Supplier Relationship Management

All the respondents violently agreed on reasons and benefits for developing a good supplier relationship management with key suppliers. The reasons and benefits fall into two main categories.

The first is commercial element. Most of the respondents believe that adopting the right approach for the right supplier, a good supplier relationship management leads, in long-term, to commercial benefits, of lower costs, quicker lead times, better quality, safer and reliable operations.

IntSCMR2 claims:

” if you are actually leveraging your scale and providing a substantial volume of your work to those suppliers, you will be expecting to get lower rates while they will have a certain flow of demand”

Respondent IntSCMR3 agrees with above view and added that good supplier relationship in supply chains lead to reduced cost and safer operations and claims:

“. the only way you can understand the cost base of your suppliers is having a good relationship with them. We know that supplier will always build on some extra cost, because they want to make as much money as they can, to which with good relationship this extra cost can be minimized or reduced”

Respondent IntSCMR1 does not only believe on cost reduction at short run, but also argues that good supplier relationship gives a long term sustainable cost savings enabling tighter process integration.

One of the supplier interviewed, strongly agrees that good supplier relationship can bring benefits to both supplier and customers. IntSupplierR2 claims:

“ Working closer to resolve issues, shared risks and in turn benefits, transparency of activity where possible solutions can be made to cut costs to both client and supplier and in turn payments collected on time, and developments onto new contracts/facilities and areas. This in turn would reduce added costs and streamline the BP contracts globally”

However, respondent IntOpsR1 casts some doubt on the claim that supplier management delivers commercial benefits. This respondent state:

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“ I think it gives you a quicker response, you get a better chance to pull in the right people at the right time and they get comfortable and familiar with your expectations and your standards so we are not always reinventing the wheel because your changing your suppliers.. I guess to me is more operations efficiency than cost reduction”

Ambrose, et al., (2010) stated that as companies pursue a supplier relationship management approach, they do so in a sequential manner. Beginning internally, with efforts aimed at reducing costs, particularly through better sourcing strategies and then externally through Supplier Management. It can be argued that when a supplier relationship management reaches a level of maturity, the overall relationship focus expand beyond a specific contract and focus on the overall relationship with a supplier as whole (Ambrose, et al., 2010).

The second category is the enhanced performance or operations efficiency through continuous improvement. Again some of the respondents believe that Supplier relationship management leads to enhanced performance or operations efficiency in long-term.

Once the suppliers are selected the challenge quickly becomes ensuring that the promised value coming out of their selection actually finds its way into company. For the two suppliers interviewed, they believe that performance management is an important element in the supplier relationship management and contract management, when well implemented, make a huge difference but require discipline and rigour to implement. Respondent IntSupplierR2 claims:

“ We believe supplier relationship management is one of the main strengths that collaborate to deliver successful contract outcomes and performance”.

Respondent IntSupplierR1 agrees with the above view and stated that good supplier relationship delivers enhanced value for both client and supplier and claims:

“ working with same suppliers in a long term relationship provides stability, continuity of service, and enhanced value as the supplier has a better understanding of BP’s values, goals and methods of doing business. From the suppliers’ perspective, the relationship provides opportunities for increased business, and an ability to deliver better results to the customer as the relationship progresses and the customers’ values, goals and methods are better established and understood”

However, respondent IntOpsR2 argues that supplier relationship management also includes working the people interface because it is the people that make decisions to support (or not) and execute the initiatives that supplier offer for a better performance. InOpsR2 claims:

“ In term of Performance Review Meeting during supplier relationship management, it works well; there is a process and people. It allows flexibility to raise things that are important to us. The value in that is having constructive conversations. The constructive way of doing this will be look of what we need to do to get things better. All this is dependent to people behaviour”

BP Head of Procurement claims:

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“ The Supplier Management process helps to drive performance improvement year on year, through increased safety, reliability and efficiency, thereby reducing total cost of ownership of goods and services. This expectation is defined in the contract”.

However, Ambrose, et al., (2010), argues that some companies implement Supplier Relationship Management process because they have been told that it is the right thing to do. They are convinced that supplier performance will improve and the results will speak for themselves. Emiliani (2010), states that while supplier performance improvement is a distinctly possible outcome, a specific cost reduction based on that improvement cannot be guaranteed because different companies implement supplier relationship management with varying degree of proficiency. Emiliani (2010) argues that success will have a much higher probability when senior management understands the business drivers for Supplier Relationship Management and therefore truly gives it support.

One of the biggest challenges, however, is that the business drivers for Supplier Relationship Management is not cut and dried. That is, it is hard to guarantee a precise return on investment for Supplier Relationship Management.

Accountability for Developing and Maintaining Supplier Relationship Management

It is recognised that supplier relationship management requires both top management and people at operational level commitment. Which the author believes mean that accountability for delivery of supplier relationship

management needs to be established and roles defined. The respondents were asked if they knew who the Single Point of Accountability (SPA) was for Supplier Relationship Management in the Angola Business Unit. The answers vary, depending on the respondent background (Technical or PSCM). In general, for the technical respondents, the SPA for Supplier Relationship Management is definitely the End User (Technical), for PSCM is the combined role between PSCM, supplier and the Technical team. IntOpsR1 claims:

“ To me I think [Supplier Relationship Management] still belongs to the Line, because the relationships with a supplier is owned and administrated and driven forward in terms of learning by the technical side of the equation. So if we want to manage a vendor at higher level across locations and assets, then I still think it should be owned by technical group that have ownership on it. If we try to drive all it from PSCM perspective, from a setting up contract perspective, then we kind of missing the trick. What we may get is a little bit more a cost effective solution, but you are not necessarily getting to a point of having good technical discussions. They are technical companies and they will run circles around you”

This view is supported by IntOpsR2:

“ I think that the relationship should be owned by the Line (Technical), because we understand it, and we are also dealing with people who are in the technical team in supplier side. I think PSCM role is to support and to enable and help with that relationship”

The above answers seem to suggest that the driver for supplier relationship management is, in one hand, improving the supplier technical performance, and in the other, that relationship with supplier is limited to the serv