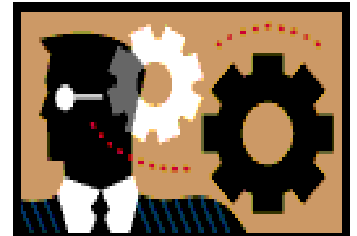




Welcome to Transform, the source for thought leadership for those organisations and procurement professionals whose goal is increased added value and improved corporate performance through effective management of procurement and the supply chain.



Buying Reputations – Guardian of the Brand?

Reputation creates value. So increasingly investors are seeking evidence that organisations have the capability to effectively manage them.

A guide for CEO's, CFO's and CPO's on the critical role of the supply chain in safeguarding, both company and brand reputation.

What's in it for you? Discover how corporate reputation can impact your company's value and why procurement and supply management are a critical component in managing reputational risk to ensure your corporate integrity is not compromised.

Reading time: 15 minutes

Introduction:



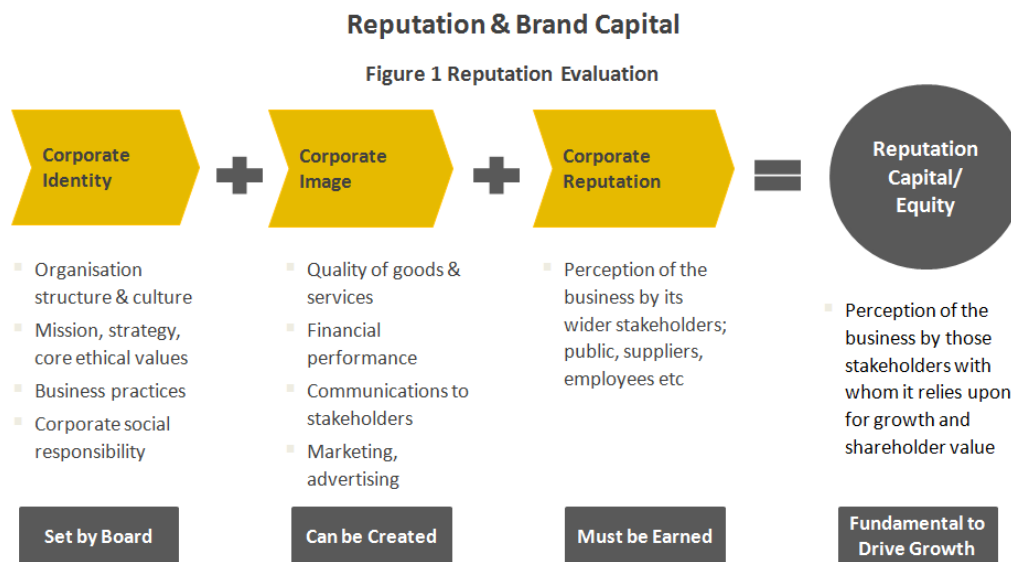
COE's are increasingly recognising the need to develop the capability to manage all of their assets; financial, human, environmental and **"reputational"**. And with so many recent reputation failures resulting from events outside of their own organisations; in their supply chain, or suppliers supply chain, they are increasingly recognising that they are not just competing against companies, they are competing against supply chains.

Herein we argue that without effective supply chain management, companies cannot deliver on the promises made to customers which in turn leads to customer disloyalty, and a tarnished brand. CPO's therefore have a significant opportunity to demonstrate supply managements key role as **"Guardian of the Brand"**.



What does reputation mean to you?

Reputation is somewhat ‘amorphous’ in nature but broadly represents the relative standing of an organisation amongst its peers as perceived by its stakeholders. Any organisation’s reputation derives from a mix of the rational and emotional attachments that stakeholders form with it. More specifically, it is made up of a number of characteristics, as shown in figure 1:



Reputation is about the integrity of an organisation and is built up over many years. It influences whether stakeholders will support you by buying your products, deciding to come to work for your company or giving you the benefit of the doubt when they hear something negative about you. In short it is a hidden asset.

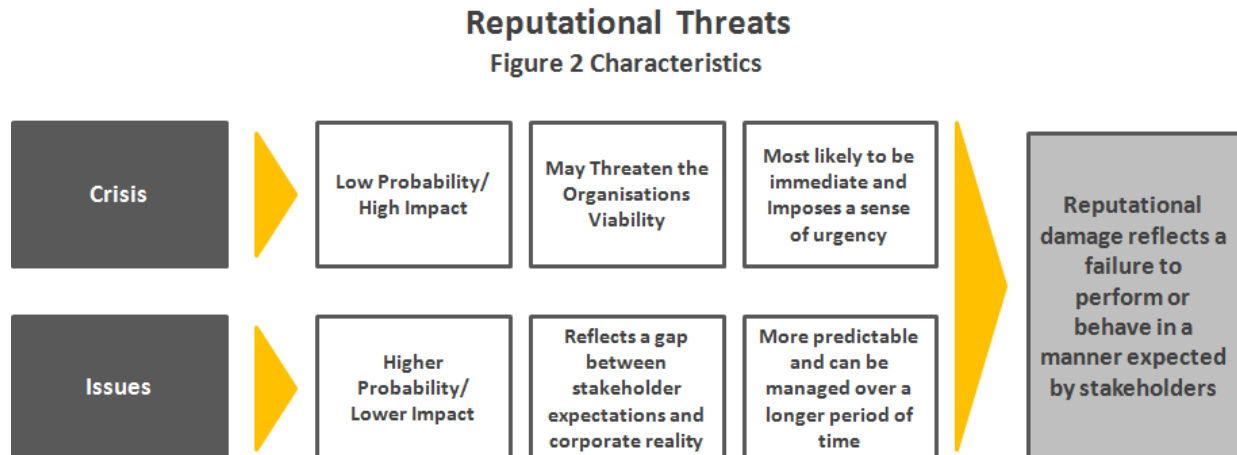
Every organisation has the opportunity to develop, and manage the risks to, its own reputation. Assigning responsibility is a critical task requiring CPO’s, not unreasonably, to ‘assume’ responsibility for reputational risk in their organisations supply chains. The aim is for a joined-up approach to ensure that procurement strategy underpins the business, its Corporate Social Responsibility (CSR) principles and values, and is in turn supported by the wider governance structure.

What is reputation risk?

Reputation risk is about an opportunity or threat that has a social or ethical dimension, that may attract public attention and trigger a negative emotional response from stakeholders and the public.



Reputational threats usually come in one of two forms: crises or issues, as depicted in Figure 2:



The key differences are that crisis are typically immediate, unexpected, and therefore open to different opinion as to how to resolve them, whereas issues evolve, relatively predictably, and are often highly politicised in the sense that those affected may be entrenched in positions based on their solution preferences.

Hill & Knowlton, a global PR company, conducted research in 2003 and found that for a few very well-recognised companies such as Virgin and Microsoft, reputation rests directly with their CEO's, Richard Branson and Bill Gates. However, for less well known companies, reputation, and brand equity, is tied up almost entirely in delivery of product or services. Execution, therefore is critical and companies are only as good as the fulfilment of their last contract. This finding is clearly significant for CPO's and the supply chain.

How much is your company's reputation worth?

There is little doubt about the potential costs of reputation and failure to manage it effectively. Consultancy PWC revealed in 2008 the steep cost of supply chain disruptions. Their analysis of 600 companies showed that their average shareholder value plummeted following supply chain disruption.

PWC's research showed negative effects on key financial indicators of supply chain disruption:

- stock prices
- share price volatility
- return on assets
- return on sales



Financial analysts are increasingly including supply chain capability and integrity when valuing businesses because of its clear link to reputation:

- ‘Market Perception’ of a business can impact profitability, book value, and total sales.
- ‘Supply Chain Integrity’ can seriously impact ‘Market Perception’.

Companies ranked high in reputation capital, benefit during mergers and acquisitions (M&A). A premium is paid for these companies and the smaller the difference among competitors in terms of corporate reputation, the more valuable a unit of reputation.

Managing Reputation:

In our view, successful reputation management must be conducted inside the corporate governance framework, which in turn should incorporate an integrated approach to risk management and reviewing the organisations environment.

Managing Reputation

Figure 3 Define the Process within the Context of the Organisation



By identifying and understanding key stakeholders and those who influence them, the issues that need managing and the opportunities for distributing news and information, companies can start to close the gaps between stakeholders’ perception and actual performance. By developing and promoting the organisations strengths whilst identifying, addressing and managing weaknesses, companies can be proactive rather than having to react defensively.

Furthermore, by pro-actively monitoring and tracking potentially influential external forces in their supply chains and analysing those forces in terms of their effects on an organisation’s reputation,



financial performance and ability to deliver, the CPO can then use this analysis to develop and implement a strategy for managing its reputation.

Guardian of the brand?

So, for many companies **'Supply Excellence'** is not just business critical; it is central to their reputation and business valuation. To support their organisations reputation therefore, CPO's must exert influence on their organisation's core strategy, values and CSR policy from a fact based supply-side perspective:

Extended Supply Chains

Extended supply chains increase complexity. As a result, CPO's must think even more about how best to manage risk and reach the right balance with potential return for shareholders. One way to achieve this balance is to engage with the business to periodically review its strategies for 'going to market' to address the risk – reward balance, by reviewing the strategic fit of the following options:

- Shorten the supply chain in order to reduce lead time and disruption risk
- Sourcing with those suppliers/locations who provide the lowest overall cost
- Optimize the supplier portfolio in order to maximise flexibility in the supply chain

Many leading companies have used the first approach effectively, others have followed the second route in response to competitive pressures. However, in the light of well publicised supply chain failures and the current economic crisis, CPO's will need to evaluate how to match internal supply chain capabilities with the optimum supplier portfolio. The aim is to secure the full competitive advantage of extending the supply chain globally whilst protecting their company's reputation.

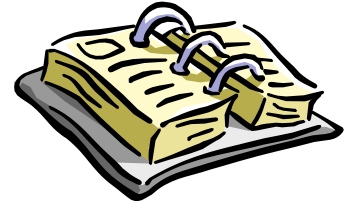
Sourcing from 'low cost country' suppliers, brings longer lead times and major implications for security of supply and demand flexibility. Whilst Outsourcing may help companies to focus on core competencies, it also extends the supply chain and to some extent places the brand's reputation in the hands of others.

Within these extended supply chains, CPO's have to concern themselves not only with business-wide issues such as avoidance of hazardous materials; end of life recycling, inventory, handling, logistics and duty, but also the need to maintain and enhance market share through regular product innovation and differentiation. In this process, valuable 'know – how' can be given away to suppliers allowing others to enter the market.



It is important therefore to ensure these risk are fully understood within the organisations and that capabilities are developed to mitigate them.

Visit the **Buying Magician Blog**: [‘Marketing & Procurement – Natural Partners in Managing the Brand’](#)



Corporate Social Responsibility (CSR)

CSR has gone from being a ‘nice to have’ add on, to become a key driver of business strategy in many companies. Smart CPO’s know that today’s methods of doing business will not be acceptable tomorrow and so they ensure routine consideration of how their organisation will be effected by the impact of CSR standards. CPO’s can instigate a cross functional review of significant internal, as well as external issues for their organisation. The outcome from this review can be used to develop a tangible set of actions for procurement to implement CSR standards and practices.

Legislation Compliance

Companies must ensure they are aware of any legislation they must comply with such as Europe’s WEEE and ROHS Directives concerning extended product life and ease of recycling.

The impact of such laws aimed at environmental best practise is straightforward to handle; reduced redundancy; the use of safer, cleaner materials, in-built capability for ease of recycling etc, but any failure to address these issues can be very damaging to a company’s brand.

Ethical Labour

With increasing moves towards ethical investment, one of the major issues that will define good companies or brands is labour practices. CPO’s must ensure their supply chains are controlled by strict standards on working conditions, supply chain policy and environmental reporting. It is the ability to demonstrate that, in a world of developing ethical consumerism, being aware of corporate governance issues and then embracing them in the product or service delivery process, that will enable companies to become recognised for supply chain excellence and build value for their brand.

Integrating Sustainable Supply Management Practices:

An organisations core values are what binds it together. Whatever values are expressed in the corporate reports and CSR statements will mean nothing if not carried out in practice. Time and events will soon



reveal a company's true values. For Supply Management, it means all its people, systems, processes and critically its suppliers, must align to these values and live them day to day in its sourcing and supplier relationships:

Sourcing Management:

Here the challenge to procurement is how to embed responsible sourcing practices into their sourcing process, to protect their companies reputation and brands:

- Develop responsible sourcing practices and embed these into the daily routine of sourcing.
- Consider the processes needed to support this
- Deploy tools and practices that will optimise efficiency

CPO's must develop a framework for responsible sourcing and supplier assurance and ensure this is incorporated into routine sourcing methodologies:

- Corporate Integrity & Legal Compliance
- Labour Standards & Human Rights
- Health & Safety
- Environmental Standards

The application of risk assessment techniques to this framework will help raise awareness and set priorities for continuous improvement. This in turn should help gain alignment with industry and stakeholders.

Supplier Relationship Management (SRM):

SRM is a key capability in managing risk and reputation. It does little good to establish core values and then find your supplier is unwilling or unable to align and practice these values in their organisation . Knowing and engaging the change agents in your strategic suppliers that are vital to reputation and branding is key. The aim is to influence supplier leadership and connect them to your interests and values, resulting in sustainable actions.

By developing closer working relationships, creating greater transparency of suppliers practices and supply chains, and identifying potential issues early, companies can mitigate their reputational risk by:

- Reducing Supply Disruption
- Improving Product and/or Service Quality



In practice, successful SRM programs require a significant change management effort. Therefore, C-level management support along with business unit and upper middle management resource allocation and involvement are critical.

Governance

Good corporate governance and compliance are essential to integrating reputation management into supply chain policies. It drives clear ownership of roles and responsibilities, efficiency of processes, and compliance with corporate policies and procedures.

Tools:

- Governance Processes
- Category Management, Strategic Sourcing & Supplier Relationship Management
- Supplier Ethical Assessment
- New Supplier Pre qualification
- Risk Management
- Balanced Scorecard
- The PricewaterhouseCoopers ValueReporting™
- Supplier portfolio modeling

Conclusion:

The pressure from shareholders and customers, driving the trend towards CSR will mean increasingly that reputation is seen as a means for organisations to differentiate themselves.

Procurement and the Supply Chain is a critical organisational capability in building and managing corporate reputation and its brands. So whilst, many CPO's have concentrated on building supply excellence within their functional domain, the opportunity is clearly there to build greater integration across the entire business and play a much more strategic role. The criticality of the supply chain towards sustaining and building reputation means that CPO's have an ideal vehicle on which to drive greater influence across the organisation.

For More Information

Purchasing Practice Inc can work with your organization to develop a strategic procurement capability that will add value and positively affect your top and bottom line. To learn more, call 1-778-988-1052 to arrange a free consultation, or visit us at www.purchasingpractice.com



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Purchasing Practice –*Corporate Procurement made simple*



Purchasing Practice works with clients on the complexity and barriers associated with implementing world class procurement practices; enabling our clients to gain more control over their third party spend management, processes and supply chains, resulting in enhanced capability to deliver innovative cost effective solutions to their own customers.

We drive superior and sustainable financial performance through top line growth, free cash flow and margin improvement (in private sector companies), and best value and service excellence (in public sector organizations).

We can help your organization “*make change happen*” in procurement. Our services include:

Transformation Management: We will act as a change agent by working with you to articulate and communicate the need for change, develop an enterprise wide procurement blue print and support you through the implementation process.

Spend Analysis: We provide spend transparency to our customers as part of our broader service offering, and this data can then be utilized to perform an opportunity assessment on the mapped data, pointing out potential areas for savings.

Opportunity Assessment: By working directly with those staff responsible for committing expenditure, or managing suppliers, we will carry out a rigorous review and present our recommendations

Sourcing Management: Using our strategic sourcing service enables clients to realize full value from their supply base through leveraging our proven processes

Category Management: We work with clients to analyze spend data, define suitable categories then working on a category by category basis to deliver significant benefits

Supplier Relationship Management: We will carry out a rigorous review using proven tools and methodologies to present our recommendations.

Mergers & Acquisitions: We will work with your M&A team to carry out a rigorous review using proven tools and methodologies

Private Equity: Working across your portfolio of companies we will drive value from procurement across business units

Interim Procurement Solutions: We essentially act as a flexible extension of the client’s own team, enabling you to realize the benefits of flexibility and scalability not only to identify, but also to implement incremental opportunities with our help.

Call us on 001 778 988 1052 (North America) or on +44(0) 1525 403862 (UK) or alternatively email us at info@purchasingpractice.com to schedule a consultation.

www.purchasingpractice.com