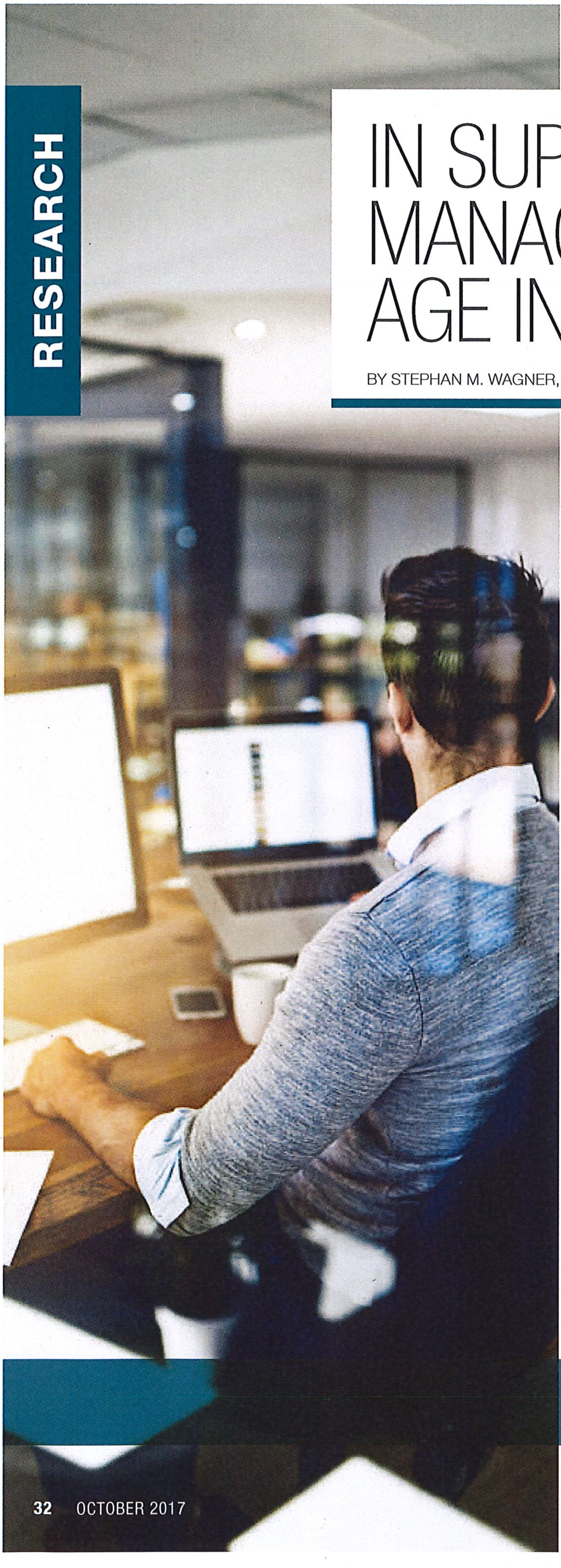


# IN SUPPLIER MANAGEMENT, TAKE AGE INTO ACCOUNT

BY STEPHAN M. WAGNER, PH.D., AND STEFAN KURPJUWEIT

A startup company is not a mature organization — and should not be treated like one by buying organizations and procurement professionals.

In 2015, a leading European automaker established an intermediary organization to facilitate supplier relationships with promising startups. Since then, many of the automaker's startup suppliers have developed and produced tangible products with potential to be integrated into cars.

An intermediary organization is not just another accelerator or investment vehicle. Instead, it stands between the corporate and startup worlds, making the buying company's supplier management more effective. This organization is connected to a structured program that guides startups into the automaker's supplier base.

Entrepreneurial startup companies can be a promising source of innovation for a company, but they come with unique supplier management challenges that procurement practitioners must navigate.

## UNDERSTANDING THE CHALLENGES

Non-equity-based startup programs — which select, integrate and develop startups as new suppliers — are increasingly being implemented, especially in large companies, for several reasons.

First, for many organizations, traditional approaches that include investments in a startup's equity, such as corporate venture capital, have not yet yielded expected benefits.

Second, many companies put a spotlight on startups with such intangible products as software or apps, thus neglecting the importance of manufactured innovations for their core business. While these startups are particularly attractive for creating new business models, they might be less so in regards to improving the actual products of industrial firms. Moreover, when collaborating with a manufacturing startup, buying organizations recognize that these relationships are much harder to manage.

Finally, and most importantly, collaborating with a startup for new product development projects — or sourcing products from them — requires a completely different supplier-management approach, as organizational attributes of startups differ considerably from those of mature organizations.

In interviews with 30 companies, we observed that buying firms have two viable options for effectively managing startup suppliers: (1) establishing an intermediary organization or (2) assigning a manager, team or an existing department to oversee the relationship with the startup. We call the latter the "corporate designee" approach, as these managers are assigned at the corporate level.

## BUILDING NEW RELATIONSHIPS

From these best-practice examples, we derived guidelines for organizations aiming to build buyer-supplier relationships with startups. These guidelines take the perspective of the buying firm and refer to the relationship life cycle.

Thus, we have developed recommendations on how buying firms can manage these special suppliers when collaborating with them on product-development projects, as well as when sourcing products from them:

- Buying firms must actively search for attractive startup suppliers, and their evaluation must be based on predefined criteria adapted to the startup environment.
- Before sourcing a product, buying firms should collaborate with a startup on a short pilot project. This tests the startup's capabilities and customizes its product according to the buyer's requirements.
- A startup needs a permanent contact person within the buying firm, a "relationship manager" who connects it to the buying firm's internal organization and opens the door to key decision-makers.

## GAINING STARTUP KNOW-HOW

Supply managers play an important role, as they are the traditional interface between the focal firm and the supply base, and thus have the necessary expertise. However, we observed that, in most companies, startup suppliers are predominantly managed by the function that established the supplier relationship (such as R&D or sales), by a corporate designee, or by a new intermediary organization.

In each scenario, the common denominator is the relative absence of the procurement department. We observed that startups are sometimes even shielded from supply management by the collaborating functions that promise to "manage" procurement for them. In this situation, supply managers cannot learn how to manage this special supplier type. Accordingly, supply managers with an overview of an entire supplier base — and who possess a life-cycle perspective of the sourced product (compared to R&D) — should play a more important role in managing supplier relationships with startups.

Nevertheless, our findings also suggest that traditional supplier-management knowledge is not sufficient regarding startups, which makes it necessary for procurement practitioners to acquire new capabilities to properly manage this new supplier type. For example, engaging with a startup is mostly about getting access to a new technology, which means that supply managers need the technical know-how to understand the true value of a startup's innovation.

Management of startup suppliers, in comparison to that of established suppliers, requires more time and effort from the buying firm. By adjusting traditional structures and supplier-management practices, companies can increase their chances of successfully tapping into the innovativeness of startups. Supply managers must enable such relationships by acquiring the know-how and using that knowledge to support and manage the supplier relationship in such a way that allows startups to realize their potential. ISM

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