

**PROCUREMENT  
LEADERS**

Global intelligence network



STRATEGY GUIDE:

# **SUPPLIER RELATIONSHIP MANAGEMENT**

## DEFINITION:

### **What is it?**

Supplier Relationship Management (SRM) is first and foremost an approach used for engaging with suppliers on a level that reflects the priorities of the customer organisation and how best these needs can be achieved. It is a differentiation process that recognises that not all suppliers are the same and therefore not all customer-supplier relationships should be dealt with through a single strategy.

Whilst much of the emphasis is placed on the role and situation of the customer and supplier, the products and services being procured are extremely influential in how the organisations view and interact with each other. By understanding and responding appropriately to this triangulation it is possible to yield the greatest value from both the products/services and the enterprises involved.

The holistic nature of this approach requires the consent and engagement of the whole organisation. True SRM cannot be achieved through the Procurement Function acting alone. At the partnership level this means the involvement of the executive team; at the very minimum it means functions acting in a coordinated way so that the organisation does not appear disorganised or schizophrenic to the outside world.

Given the complexities described above, SRM needs to be considered as part of a much wider portfolio of procurement resources that collectively deliver the value and contribution that more and more organisations are demanding of the function. It therefore requires careful development at speeds often dictated by the activities of the organisations involved.

### **What is it not?**

Given the current situation with regard to SRM products, services and trends, Procurement finds itself in a position where it is important to state what the approach is not.

It is not a software tool that can be filled in like an electronic filing cabinet, storing all the information and complex analysis that used to be done on paper. Supplier relationships management happens in the real world if real benefits are to be derived.

It is not an approach limited to the development of partners alone. Not all organisations are able to follow the mass manufacturing model of a small number of partner suppliers who manage areas of the supply network on behalf of the OEM. Organisations will have different requirements and different supply networks against which they will often have to develop unique solutions.

It is not a quick win solution that can be fully implemented in the short-term. Relationships of any kind other than adversarial require trust as their foundation and therefore take time to nurture and build. Not everyone in the customer or supplier organisation will get it right all of the time and setbacks will be common with hard won benefits becoming easily lost.

It is not something that can be implemented without a fundamental change in Procurement, the organisation it serves and the suppliers involved in the new approach. Whilst the new ways of working may be Procurement led, they require the active and honest engagement of all those involved. Building structured and managed relationships that balance long-term objectives with shorter-term requirements will require flexibility on both sides if it is to be successful. It does not mean reducing the power of the organisation. Rather, it means working as part of a network to ensure that the value of each player is leveraged toward the needs of the end customer and of each organisation within the supply chain.

## OBJECTIVES:

As with many procurement activities, at the most basic level, SRM can be used to reduce both prices paid and costs to the organisation. By developing appropriate styles of interaction, even adversarial ones, it is possible to save money. Suppliers have expectations as to how the customer will act and are often positioned to respond in kind. Key to developing an SRM approach is a well understood supply base.

As the customer organisation develops its own maturity and inward understanding, it becomes possible to develop more value adding capabilities to the relationships that are being nurtured. Initially this is often at the product or service level, but as the customer organisation progresses this often expands to include an evaluation and sourcing strategy based around the provision (internally) of core competencies and (externally) of non-core competencies.

Whilst the above focuses heavily upon inward reflection, it quickly becomes just as important to understand what the supply market and individual suppliers are capable of delivering to the organisation. A successful relationship strategy will carefully differentiate between internal and external provision in a way that does not compromise or compete with the other. At this point the emphasis is on aligning organisations in order to ensure that products and services flow through the supply chain and network toward the end customer.

The concept of flow (both value and physical) brings into focus the need for stable and capable processes that perform over time. The propensity of many organisations is to improve through programmes, often driven by sub-optimised Lean and Six Sigma approaches that butcher the enterprise into neat packages in an attempt to demonstrate quick wins and 'progress'. High performing organisations have high performing supply networks and this comes from the alignment of objectives and approaches to how things are done across the entire enterprise. By knowing what is expected, suppliers are able to manage their own businesses for the long term. Not only is this more cost effective, it is also more robust from an operationally competitive perspective.

It is not always the case that customers simply want what can be described as the classical portfolio of products and services. Sometimes engagement with suppliers is influenced by secondary requirements such as access to technology or other capabilities. In today's market sustainable levels of competitive performance are often delivered through the ability to differentiate the products and services offered to customers. Fundamental to this strategy is the ability to access new innovation so the organisation can be first to market or offer a premium above the competition. From this perspective supplier relationship management is as much about what can be achieved as it is about becoming the customer of choice to the supply market. However, being customer of choice brings with it significant obligations. Namely, to maintain the differentiation, and the benefits it brings, through the organisation managing its suppliers as carefully as it manages itself.

## METHODOLOGY:

### **Define the business priorities**

The very first step of any SRM process should be ensuring clarity around the purpose of the organisation. Whilst most organisations will simply fire back “Profit”, the more astute will see profit as the consequence of achieving organisational purpose and objectives efficiently and effectively. The point to be made here is what differentiates the organisation as a whole from all others. Although this may seem rather abstract, the intention is to provide a point of reference against which all stakeholders can assess situations and therefore make aligned decisions in the best interests of the enterprise as a whole. At this level arguments, and there will be many, become less about personal perspectives and more about achieving the best accommodation for the organisations involved.

As the analysis of business needs becomes more tangible, operational and strategic priorities can be contextualised and their sometimes conflicting intentions rationalised against the overarching purpose of the network. This is in stark contrast to many situations where SRM programmes are launched at the individual supplier or category level. Starting at these lower levels of activity leaves the programme with no anchor to the enterprise in what is predominantly an organisation to organisation activity.

### **Understand the supply market structure**

Once the internal environment is understood, the next step is to profile the external supply market. This needs to be done from two perspectives. A classic Porter's Five Forces Analysis provides insight at the organisational level and a product/service portfolio analysis provides further insight at the level of offerings being presented by the market.

An initial Porter's Five Forces Analysis will take time. But it needs to be done and it needs to be kept up to date, being revised as often as the market changes. In this way it becomes a dynamic resource that not only provides a snapshot in time, but also provides visibility of trends and sudden shocks in the emerging environment.

In a similar vein to the supply organisations, the products and services they provide need to be profiled with care and a certain degree of innovation. It is easy to build profiles of like for like products. However, the real insight comes from understanding the core competencies and specific value that each brings to the customer organisation. This often requires a deep understanding of how the products and services are created and then used by the next and end customer.

By organising knowledge of suppliers and their offerings in different ways it is possible to build alternative supply scenarios that reflect the different strengths and opportunities available whilst mitigating the weaknesses and threats. A variety of matrices that cut supply proposals based on organisations, offerings or a mix of both will add complexity but may also result in the most elegant solution to what might be a very difficult situation.

## METHODOLOGY:

### **Understand current maturity and approaches to supply**

Evaluating the current maturity of the procurement organisation is probably one of the most difficult steps to take. There are many models against which a function can assess itself. However, this is where the process often fails. Self-assessment is hugely subjective and heavily influenced by the culture and awareness of those completing the review.

Procurement will have a view as to how well it is performing and how competent it is in the way it delivers these outcomes. The internal organisation will also have a view as to their experiences of working with Procurement and relying on them for the delivery of third party products and services. Conversely, suppliers will have a view of Procurement in terms of how easy they are to work with, how balanced they are in their approach to suppliers and, most importantly, how easy Procurement makes it for them to engage with the right people in the customer organisation in a way that enables them to add most value.

Procurement and the internal organisation need to be mature enough to launch a long-term supplier relationship programme in a way that will add value. If they are not ready then the likelihood is that the initiative will descend into recriminations and entrenchment as the short-term desire for instant results turns a managed intervention into a stressful cocktail of unmanaged expectations.

### **Work out who can give you what you need and what you will have to give in return**

A simple test of maturity is to evaluate whether the organisation is clear about its purpose and the core competencies it possesses to deliver the necessary outcomes. If these core competencies are known then everything else becomes challengeable or non-core. As such, these areas become candidates for outsourcing activities. The importance of thinking from a competency perspective brings into focus the importance of getting the supplier relationship right. Although competencies may be 'non-core' they are still necessary for the enterprise to operate effectively. Making mistakes in outsourcing the wrong things or to the wrong suppliers is hugely costly and may take years to recover from. The key point is that when you source something externally it does not mean that you can walk away from it and expect all the associated problems you were experiencing to simply disappear. When you decide someone is better positioned to perform a task or provide a resource you have to work out what you will need to do to (both initially and over time) ensure the new solution is successful.

This can be visualised by ignoring the organisational boundaries and focusing on the relevant flows that enable, develop, create and deliver the products or services required by the end customer:

1. Physical flows (of both product and services) are the obvious one and these tend to flow toward the next and end customer;
2. Information flows tend to flow in both directions and provide the relevant detail and triggers required to enable things to happen;
3. Financial flows tend to work back from the end customer and are necessary for the funding of products and services all along the supply chain;
4. Relationship flows, although last in the list, are by no means the least important. Many decisions are made as a result of the nature of the relationship between individuals and organisations.

Mapping each set of flows will highlight the fact that they do not all run along the same set of paths and this is a crucial insight for any organisation that has the ambition to build strong relationships, of any kind, with their supply network. The point comes into sharp focus by removing any one of these flows and evaluating the potential consequences over time.

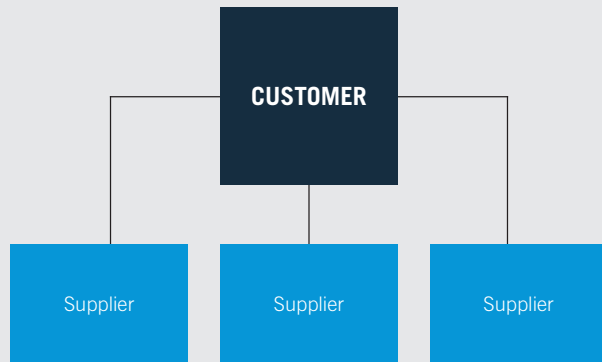
**Build strategies**

At its highest level, supplier relationship strategies can be defined at three levels.

**LEVEL ONE**

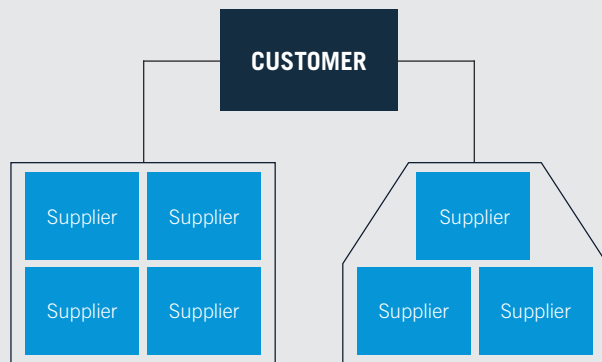
The simplest model positions all suppliers around the customer organisation and the customer deals with each individually and independently of the rest.

From a relationship perspective, the decision as to the nature of engagement will often be based on the impact of the supplier's products or services on the organisation or the potential risk associated with doing business with a specific supplier.



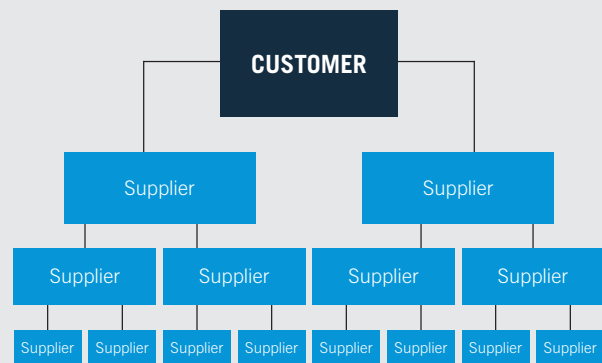
**LEVEL TWO**

If Procurement is organised around categories then it is normal to see suppliers groups around these categories and relationships built from a combined perspective of the individual supplier and the supplier relative to others within the category group. In these situations it is not unusual for suppliers to sit in more than one category group and this can cause problems in developing a coherent relationship between customer and supplier



**LEVEL THREE**

Organising around the flow of products and services toward the end customer often results in tiered supply networks, common in the automotive and other manufacturing sectors. In this situation nearly all suppliers will be classed as 'partners' due to the responsibility they are given for managing smaller and other suppliers further upstream. Due to the amount written about manufacturing procurement this explains why so many programmes focus heavily on SRM being solely about partnerships. As can be seen, other viable options exist.



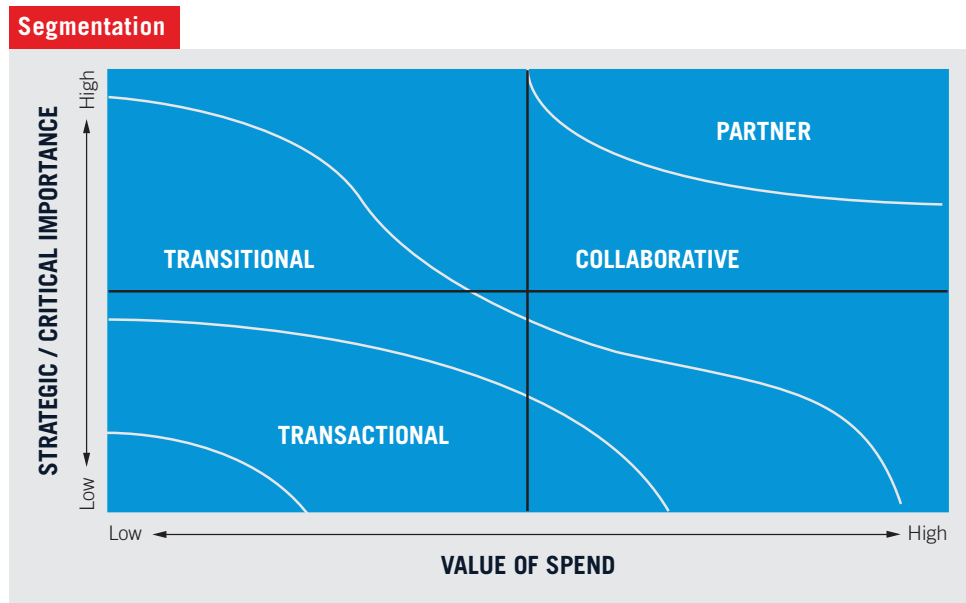
Flexing a supply network to adopt the structure wanted by the customer is a huge undertaking and requires a significant amount of work to move suppliers from the relationships they currently enjoy (and often want to maintain) to those that the customer feels will be best serving. This highlights the need for two levels of strategy; the intended outcomes and the means by which they will be achieved. The viability of each proposal needs to be evaluated from multiple perspectives to provide an informed set of alternative proposals that can be presented to the senior management team of the customer enterprise as part of the justification for the approaches being proposed.

**Segment the supply market**

Now comes the point when the customer organisation can begin to solidify its thinking into a set of relationship strategies within which each supplier will be positioned. This process creates the detail for managing the supply network that will sit within the already defined strategy. As such it is likely to be an iterative process as strategy informs supplier positioning and vice versa. In some cases it is likely that certain suppliers will have to be positioned in relationships that are less than ideal for them individually but the best accommodation for the collective group they form a part of. Supplier relationship management is a messy process and can have as much to do with politics as it does with cold logic and transparency.

At the relationship level it is important to provide enough uniqueness to be able to reflect the degree of flexibility required by the organisation in order to effectively manage its suppliers in a way that will yield optimum results. The key point here is that 'optimum' is contextual; too many or too few groups and the return on investment in the programme begins to diminish.

In terms of the hierarchy of relationships, the model below might be representative of what to expect. Although each supplier will appear within a specific band, it is important to acknowledge its relative position in absolute terms, to other bands and to other suppliers. Fundamental to this approach is the availability of a standard evaluation model against which each supplier can be positioned, such as that shown below:



A brief narrative to each band might describe them as:

**1. Nuisance.** Suppliers with whom it is more inconvenient and/or costly to avoid than do simple sourcing business with. These organisations are kept at arm's length until they are no longer convenient to work with and then they are simply dropped. Measures of performance will tend to be restricted to price, delivery and quality.

**2. Transactional.** Suppliers who are used for basic requirements on an ongoing basis, but who represent no significant benefits to the organisation. From this perspective the focus is exclusively on meeting internal needs and maximising profits at the expense of the supplier. This often manifests itself as a take it or leave it negotiating position. Measures are as above with some elements of benchmarking and expectation around the responsiveness of the supplier to fulfilling internal needs.

**3. Transitional.** Suppliers who may offer a mixed portfolio of some significant and some basic supply requirements. The characteristics of the relationship are difficult to define often resulting in multiple levels of relationship being developed across the organisation. This can prove difficult to manage and it is often necessary to force a change in the nature of the engagement so that it is more clearly defined. A key measure is the number of suppliers moving in and out of this section, with the balance of measures coming from the nuisance and transactional or the collaborative and partner relationship types.

**4. Collaborative.** Suppliers who are highly visible to the organisation and who are used regularly, but who cannot offer a compelling or unique value proposition. The intention here is often to develop the relationship particularly through senior level interventions. This approach is often enabled through a consolidation of requirements to fewer suppliers followed by an expansion of contracts to those few remaining. Progress is made through a mix of working on existing issues and developing new collaborative projects. Measures attempt to balance the relationship investment costs against the financial contribution that results. This is augmented by broader programme performance and other strategic benefits, such as time to market or knowledge sharing.

**5. Partner.** Suppliers who have a significant influence over the sustainable competitiveness of the organisation and who need to be engaged from multiple perspective for the long-term. Communication across all levels of both organisations is abundant as a mechanism for protecting the relationship. The customer is particularly careful to respond to supplier needs and provide critical resources when required. Measures of performance are almost exclusively strategic and organisationally oriented; examining business performance, customer experience, innovation and position relative to the competition. Above all, however, is the assessment of differential value achieved as a direct result of the partnership.

Key to the success of the whole programme is Procurement's ability to manage spend on behalf of the organisation. As such, probably the most fundamental measure is the amount of spend under strategic procurement management - even the tactical commercial items.



### **Engage the whole business**

Changes of the magnitude described above require the involvement of the whole business if they are to be successful. This starts at the very top and needs to work right down through the ranks of managers and staff to ensure that everyone understands the imperative and potential benefits that might be derived. It only takes one rogue individual to set back the whole process and cause loss to the organisation way beyond a level they should be entitled to achieve.

The flow models will prove to be a significant resource here in informing the organisation and its people of the roles and responsibilities that will need to be adopted if the programme is to succeed. Once again, if the business is not ready, then progress needs to be slowed until it catches up or decides not to pursue the proposals being made. Both will require direct high-level interventions to move the situation forward.

### **Train and develop those that need it (!)**

When people talk about SRM, as has already been mentioned, they think about partnerships. To those same people, 'partnerships' can mean being softer on suppliers, becoming overly dependent on them or given things away without getting more back. It is quite possible that this does happen, but good programmes are very different. The issue of perception being described here highlights the need for organisations (customer and supplier) to be trained and developed in terms of both the expectations they should have and the ways in which they should engage with each other.

At the partnership level this will need to be driven through structured interventions and sponsored by the senior management team. At the other end of the extreme, nuisance suppliers will need to be managed by procurement staff who understand their role in working with these suppliers and the boundaries within which they should operate.

This sort of training and development is not limited to procurement staff. Any function that directly interacts with suppliers will need to understand their role in supporting the relationship management programme and how these roles will vary for each supplier depending on the type of engagement that is being nurtured.

Ultimately, Procurement will probably need to take the role of coordinating the whole programme, including training, and this will need to reflect their standing within the organisation and the level of maturity with which they are able to lead the development and delivery of the work involved.

### **Implement differential supplier management approaches**

Implementation of an SRM programme might seem a little counter-intuitive given that the first phase is to focus on the internal organisation. As individuals begin to contextualise and understand the role they play, they will be better able to represent the intentions of the organisation toward its suppliers. There is no second chance at this and it needs to be meticulously planned and executed.

Anomalies will exist and these need to be found and resolved before they become issues for the suppliers affected.

As people become familiar and confident with what is expected of them, the programme can be progressively managed out into the supply network. This may be done using vehicles such as new projects, other programmes such as supplier development or from a spend/impact perspective. It is often necessary to manage the deployment carefully. Not all organisations should be engaged at once; the process needs to be progressive and within the control of the customer organisation. As this happens resource requirements will grow and the focus of those involved will shift from a more internal focus toward a stronger organisational network orientation.

Although the approach is less risky if staged, it does not mean that the intent cannot be communicated right from the start of the programme. If done well it will raise lots of questions that will help inform the implementation planning. Indeed, the communication can be presented in such a way as to not only inform those organisations that will be involved, but also to send a strong signal as to the change in approach that will follow. SRM should result in different ways of working if different levels of performance are to be achieved. However, it is only one part of the portfolio of solutions that need to be enacted together.

### **Embed the processes that will keep it going over the long-term (senior level down)**

SRM should be designed to deliver benefits as it is implemented, not just at the end of a possibly protracted intervention. This means that senior level sponsorship will be an essential element of maintaining an appropriate level of focus on the initiative. A review process will support this reinforced by clear communication of how progress, outcomes and information relating to emerging issues are being dealt with.

Underpinning all of this effort and focus should be the alignment of activities and performance measurement to the wider business strategy and personal objectives. A note of caution would suggest that SRM should never become an objective in its own right, it is the means by which other objectives are achieved and therefore needs to be balanced within the wider portfolio of issues and activities driving the organisation and its supply network forward.

At its most basic level, the management and workings of the SRM programme needs to be embedded within the normal business activity, reviews and governance of the organisation if it is to become a normal part of daily practice.

## THE FUTURE:

There is a growing realisation that many SRM programmes have missed the point and therefore not delivered. This has led to demands for providers of such resources to raise their game and deliver offerings that are actually fit for purpose. However, a balanced proportion of the responsibility has to sit with organisations that have neither fully understood the concept or implemented it with the necessary rigour and determination worthy of the potential gains on offer.

Unfortunately, many early adopters have simply walked away and/or publicly vented their frustration at yet another failed innovation to blight Procurement. The future of SRM is secure and necessary. This will probably not be in its current form and will therefore require further development to make it more accessible to those organisations that understand its true potential.

Supplier relationship management is a long-game strategy, which can deliver benefits as it is implemented. This requires careful planning focused on an intimate knowledge of the supply market and internal organisation and how they need to work together to be efficient and effective. Central to this is the ability to coordinate multiple procurement processes such as strategic category management, supply base management and supplier performance measurement. It is the coordination of multiple activities within a structured framework that leads to levels of performance not achievable through other methods. It also means that these take time to deliver. The hunt for instant results is a naive one and will never lead to long-term sustainable performance.

As the knowledge economy grows many organisations are realising the dependencies they share with each other and that significant impact can only be achieved by working together in planned and managed ways. The stark truth is also apparent that if your organisation doesn't lead the supply network then someone else is likely to do so for you. This makes supplier relationship management a business to business issue not procurement to supplier issue. Demands on Procurement to become more business oriented and therefore more mature and integrated in its ways of working thus become more and more justified. For many organisations this will mean that procurement takes on less of a functional identity and is seen more as a set of processes embedded across the enterprise.

The function is unlikely to move toward a more process-oriented approach unless the whole organisation moves toward the same. The alignment of an organisation around process activities is also synonymous with a competency-based model, the next logical step as being one of aligning processes and competencies between a carefully selected group of partner suppliers. This reinforces the need for robust supplier relationship management not only at the point of need but also for a significant period prior so that suppliers can be selected based on intimate knowledge of their capabilities, culture and performance and the strong bonds built around interdependency and trust that have developed over the long-term.

All of this requires a stronger focus on the customer in terms of the end product/service being offered and how that is developed and delivered through the network. This is in contrast to the current view of organisations interacting as single entities to generate their own part of the offering. The realisation of mutual interdependence between these few partners within a core network of supply will also change the nature of negotiation. No longer will the emphasis be on who gets the biggest slice of the cake. Instead the focus will be on how big the cake can be made to grow and how the profits can be shared equitably to reflect contribution. At this level, supplier relationships become a true win-win scenario. However, those further down the scale of influence will, and should, still be subject to progressively more tactical and opportunistic behaviour. The time is coming when it really will be the smartest and strongest that survive and flourish.