EXPANDING SOURCING’S VALUE

THE ENHANCEMENT OF STRATEGIC SOURCING’S SERVICE OFFERING IS INTEGRAL TO THE STRENGTH OF THE ORGANIZATION AS A WHOLE

Strategic Sourcing departments spend valuable time and resources in sourcing and negotiating best-in-class contracts with choice suppliers for their companies. To make the most of the value derived during the sourcing process, the next logical stage in the procurement process is managing supplier relationships to ensure greatest return on investments throughout the supplier lifecycle.

Supplier Relationship Management (SRM) provides for a consistent way of interacting and managing suppliers that promotes collaboration and continuous improvement from the supply base. A comprehensive SRM program can offset supply chain risk, enhance supplier services and support, maintain and improve upon the value acquired during original sourcing event, and even increase top-line revenue growth.

Already validated and established as a corporate process throughout Europe, SRM is still a relatively new concept in the United States. Lack of case studies, unclear program definitions and uncertain planning methodologies are causing many to question the value of SRM and whether U.S. businesses can actually achieve the same results that other companies have accomplished with it abroad.

Still, as senior executives push to get more from their Strategic Sourcing departments, Chief Purchasing Officers are pressured to enhance the service offering they deliver to the business. While SRM offers promise, the lack of a clear business case and understanding on how to implement programs is causing resistance among today’s fully burdened and lean Sourcing departments to implement true SRM programs.

Not all suppliers require the high level of interaction offered through a comprehensive SRM program. Vendors that directly impact financial performance, affect the delivery of goods and services, have access to sensitive company information, and/or are associated with corporate regulatory obligations represent ideal scenarios for SRM. Through a better understanding of SRM, its components, and its implementation, Strategic Sourcing departments can successfully use this program to maximize the potential value of these critical supplier relationships.
WHAT IS SUPPLIER RELATIONSHIP MANAGEMENT?

Supplier Relationship Management takes traditional sourcing methods to the next level. While the sourcing process uses Requests for Proposals (RFPs) and templated one-way communications to select suppliers and derive the most upfront value for contracted services or products, SRM uses processes, principles, communications and tools to help companies better manage their existing suppliers within all areas of the company during the entire supplier lifecycle. SRM is an integrated approach, addressing both the buyer and seller sides, which can provide mutual benefits for each organization through an appropriate investment of time, resources, and executive support.

Once suppliers have been identified and contracted through the sourcing process, SRM drives a consistent way of interacting and managing those critical suppliers. The results are improved relationships and continuous improvement from the supplier base.

By establishing a common set of practices and processes for consistent interactions, SRM opens communications and the way both parties work together to gain a fuller and faster understanding of potentially mutual strategic goals. Programs also provide greater visibility into supplier activity throughout an organization.

As strategic suppliers are treated more as partners rather than just commodity brokers, SRM encourages them to be more innovative in addressing corporate requirements while delivering the best service or product now and throughout the contract lifecycle.
SRM EXTENDS SUPPLIER VALUE

Once a supplier has been sourced and contracted to provide a particular product or service, three different scenarios can play out in the organization related to the management of the supplier (Graphic One).

Suppliers can be virtually neglected (1) over the course of their contract. Even the most well-executed contract does little good at the bottom of the legal department’s desk drawer. After months of neglect, the original deal is, for all intents and purposes, invalidated. The supplier has not been kept accountable to terms during the contract period and the quality of services can decline while costs escalate beyond contract terms. As the agenda of both parties has changed over the contract period, lack of communications has grown into distrust or disinterest and the value attained during the original sourcing period is long gone.

Supplier identified and contract signed, the value from strategic sourcing can erode within 18 months. In fact, the absence of rigorous contract management can result in up to a 75% loss of sourcing savings within this period.

Most companies, however, do implement some level of supplier performance management (2), which still falls short in creating long-term value beyond contracted terms. In this scheme, suppliers are only evaluated on the status quo and information is exchanged periodically, usually at milestones or when issues must be addressed. Regular account review meetings are treated informally and agendas lack the proper level of executive sponsorship. Without clear decision-making authority, ownership, and leadership on both sides, opportunities are missed and issues begin to fester. Contractual value is maintained, but not optimized.

Through constant supplier collaboration (3), supplier relationship management programs aim to deliver incremental short- and long-term value with suppliers. While supplier performance management ensures costs and activities follow contract terms and that KPIs are met in terms of quality and service, supplier collaboration via SRM creates new supplier value beyond the contract. Suppliers are proactively engaged to exchange information and ideas on a regular basis and suppliers become more accountable and consistent in providing higher quality services. Value continues to grow after the contracted savings stage, with suppliers making important contributions to the company beyond the original contract scope.
*Without rigorous contract management, 75% of sourcing savings can disappear within 18 months.
TYPES OF VALUE ACHIEVED THROUGH SUPPLIER RELATIONSHIP MANAGEMENT

The value derived from a comprehensive supplier relationship management program comes in many forms. Organizations focused on enhancing supplier relationships can expect the following results:

**Increased Efficiency**
Through improved communications, suppliers come to better understand their client’s business to meet needs more effectively. When issues or problems do arise, systems and controls in the SRM program enable both parties to identify and address them. Suppliers anticipate and adapt to needs more quickly, eliminating redundancy while streamlining processes.

Let’s take, for example, a financial services company that processes millions of credit card statements per month across 60+ different credit card portfolios. To find a more cost-effective way to print statements, the company turned to their supplier to help find a solution to create longer print runs with fewer setups, as multiple print run setups create inefficiencies and higher cost in the production process. Wildly varying portfolios with different monthly billing cycles presented significant complexity on how to consolidate print runs. Regulatory obligations to deliver statements in accordance with customer-selected cycle times also posed further issues.

In partnership, the printer and financial services company developed a strategy to optimize print run times by offering different billing cycles to customers within regulatory requirements. Additionally, both organizations reviewed upstream processes to coordinate print runs with data feeds to minimize print setup times. As a result, information exchanged through the open communications channels established by the SRM program enabled the supplier to understand their customer’s problem more clearly and offer a solution from their expertise.

**Cost Savings**
Over time, SRM processes and practices can help reduce availability problems, quality issues, and delays. In addition, vendors are more inclined to share cost efficiencies gained through the adoption of new technologies or methodologies with businesses in which they have close working relationships. Rather than benchmarking their suppliers’ different industries, buyers can depend on their preferred vendors to share new trends in their markets - providing for mutually beneficial cost advantages from both an operational and unit cost perspective.

**Revenue Growth**
Through greater operational efficiencies derived from an SRM program, both the supplier and buyer can increase revenue growth. For example, as part of an SRM program, a firm that prided itself on high levels of customer service worked with their provider of outsourced call center services to find new ways to engage customers. The call center provider introduced to the firm a new emerging technology that made ordering services easier while increasing access to customer support.
By implementing this new technology, the firm offered a greater level of customer service and technology innovation, which motivated customers to order online more frequently. The new technology also narrowed the range of incoming call types, allowing the supplier to further focus and streamline operations. Increased customer activity correlated into greater revenue for both the business and the supplier whose profitability was tied to performance. Working in close collaboration or through a joint venture, both parties in an SRM program can go after new market opportunities such as these, sharing risks and potential growth.

**Risk Management**

While lack of compliance to laws and regulations can have financial penalties, security breaches of company and customer information can have detrimental effects on a company’s reputation, damaging a brand name and resulting in lost sales. Working within a solid risk and control framework established as part of an SRM program, company personnel assigned to manage a supplier who handles proprietary information or interfaces with customers now have a formal risk and control process to follow. This allows supplier managers to better understand supplier and internal controls for managing risk, test suppliers’ controls to ensure activities meet relevant regulations, maintain security of proprietary information and create disaster recovery scenarios and backup plans.

**Preferred Buyer Status**

Constantly changing vendors is an expensive and time-consuming activity as it takes internal resources to identify suppliers and negotiate contracts. Even if a new supplier promises lower costs, the long-term relationships built with strategic partners generates more value over potential short-term gains. By sustaining supplier relationships, buyers can become a “customer of choice” to minimize fluctuations in commodity prices, establish a clearer cost base and provide total price visibility.

**Innovation**

As experts in their field, suppliers can share knowledge to help their customers enter new markets and geographies, gain access to new technologies, and improve cross-functional collaboration between organizations. Open communications at a leadership level can spark new ideas and elevate organizational discussions that can lead to an aligned strategic focus between companies, which can potentially result in competitive advantages for both sides.
As supplier relationship management programs represent an investment of time and resources, not every supplier qualifies for the same level of inclusion in such a program. Strategic Sourcing must determine which suppliers are best positioned to provide the greatest return to the company through closer collaboration. Some candidates may be more critical to the business as they manage proprietary or critical aspects of operations or represent a large expenditure. Others may be more strategic, offering services that few other suppliers do in the marketplace. Sourcing and Supply Chain may also use SRM to better manage more complicated supplier relationships or those that are not performing well.

For example, in a manufacturing company, the most critical suppliers may be those that keep the business operating by supplying the materials and specialized services, as well as capital equipment maintenance. As this list of suppliers may be long, those that provide ancillary and supplemental products should be given lower priority while suppliers that provide materials that support premiere product lines, or products more important to long-term growth, should be considered truly strategic and worthy of inclusion within a comprehensive SRM program.

Scalability is important to a successful SRM program. Once the value of a supplier becomes evident and the process becomes clear, they can be added into the program. Even vendors providing indirect products and services can be efficiently managed in a way that provides value to the organization.

The Supplier Screening Process

Through supplier segmentation, Sourcing and Supply Chain can screen the feasibility of a supplier for an SRM program. Even though a “segmentation tool/calculator” can be used to assess suppliers, factors should be based on corporate strategic goals. Some firms may weight regulatory impact heavily, while others might be more concerned with suppliers that ensure the ongoing availability of raw materials or provide innovation from the supply market.

Below are some factors to consider when segmenting suppliers.

- Is the relationship strategic to the business and important to growth?
- Does the supplier support the most important products or services?
- Does the supplier represent a significant expenditure?
- What is the risk of supplier failure?
- Are regulatory and security issues involved in the services provided by the supplier?
- Does the supplier offer specialized products or capabilities that offer a competitive advantage?
- What does the supply market look like?
- Is the supplier in a competitive vs. collapsed market?

Through this analysis, suppliers will fall into one of four categories, as outlined in Graphic Two. The category where a supplier resides determines their level of SRM engagement. Suppliers that plot at the top of the graph in the categories of Critical and Strategic are typically the most qualified for a comprehensive SRM program.
Through supplier segmentation, vendors can be plotted in a graph on their level of value/spend to the organization as well as the level of market risk and criticality to business operations. Those that plot at the highest levels are those most critical or strategic to the company and should be considered for the highest levels of engagement via SRM.
SRM PROGRAM OBJECTIVES

Even though supplier relationship management programs can offer similar value, each has a specific set of objectives based on what the buyer wants to achieve with their group of strategic suppliers. Objectives can include leveraging supplier expertise to take business operations to the next level, improving supply chain efficiency, mitigating risk to buyer operations, gaining access to supplier innovation or competencies to reduce costs, entering new markets, or strengthening core capabilities.

Program objectives (reduce costs, improve efficiency, etc.) must be tangible and specific rather than general in scope. For example, a company may set the objective to reduce costs by $2 million through the implementation of new technology or the introduction of a new product line, supported by strategic suppliers.

It is important to note that one SRM program does not necessarily satisfy all strategic objectives, especially within larger organizations. Different SRM programs composed of varying groups of suppliers may support various operations within a company. At the same time, companies could have multi-faceted objectives within one SRM program. For example, an SRM program could serve as the vehicle to drive innovation and reduce costs while providing for enhanced supply chain stability. Regardless, the objectives will serve as the roadmap in the creation of the SRM program.

Graphic Three: SUPPLIER SEGMENTATION ACTIVITIES

Based on supplier segmentation results, an SRM program should allow for multiple activities for managing a range of suppliers within the portfolio. While there is no prescribed formula for which activities are compulsory, it is intuitive that Critical and Strategic suppliers command a higher level of...
As supplier relationship management program objectives vary, so do program components. While every SRM program shares a common set of tools, corporate SRM objectives and company culture determine their structure. Different program components are outlined below:

**Toolkit**

Toolkits outline the common methodologies and activities used throughout an organization to monitor program performance, support program objectives, drive executive involvement and ensure ongoing collaboration. **Graphic Three** outlines some of the most common activities related to an SRM program. While every supplier requires some level of activity, transactional and leverage vendors deemed less strategic to business goals and risks should have less interaction than strategic and critical vendors involved in an SRM program.

Even though every SRM program maintains similar activities, such as annual contract reviews and a value release plan, processes within these activities are unique to address specific program objectives. Say, for example, a program objective is to attain a 2% cost reduction with five strategic suppliers. Different levers within a value release plan would be identified that would drive the attainment of this objective. Levers could be focused on controlling and tracking costs through budget management, invoice verification, monitoring budget vs. actuals, or more stringent controls.

**Team Members**

While Strategic Sourcing or Supply Chain groups typically lead SRM programs, different departments may be involved based on their current interaction with suppliers and program objectives. Managerial- and executive-level personnel must be involved in the program to provide strategic guidance and corporate buy-in. Conferring departments, such as Legal, Compliance, and Finance, may also provide guidance to issues such as risk and potential dollar-value savings and earnings. While different stakeholders are involved in the SRM program, Strategic Sourcing may ultimately be responsible for its execution from a project/program management perspective, especially if strategic suppliers provide major services to multiple departments.

**Training**

When rolling out an SRM program, training is necessary to educate the organization on its benefits and role in optimizing business operations. As large-scale SRM programs require management at different levels, every employee involved in the management and/or daily interface with suppliers must be trained on how to use tools to ensure successful program execution. Before an SRM program is even rolled out, every stakeholder should understand their role and obligations to the program for the greatest level of success.
**Technology**

Technology can complement the process toolkit by supporting a higher level of information exchange and centralizing important data for greater security, availability and visibility by both the buyer and supplier. With both parties working with the same, updated information, SRM programs can move forward more effectively, with the buyer and supplier working on projects concurrently and addressing the same issues.

Technology can also support personnel in the creation of reports and offer specialized information not retained by either the supplier or buyer. For example, a pharmaceutical company may integrate a risk management software program into their supplier management portal to identify suppliers that have debarment flags or have violated the Sunshine Act.

While not a mandate, technology may prove invaluable, especially for larger companies that have included a large number of suppliers into their SRM program.

**Performance Management**

The SRM program should include defined processes to manage performance. Involvement at the highest executive level is key to the ongoing success of the SRM program.

**Graphic Four** shows the typical tiers of performance review. While lower levels are much more involved in tactical operations (supplier/buyer 360° surveys, scheduling meetings, etc.) and may interface with suppliers on a daily or weekly basis as appropriate to manage business, executives may only meet quarterly to discuss strategy. Using input from different management tiers, the SRM program can work successfully on a day-to-day basis while continuing to evolve and address the long-term goals of both parties.
Within the range of activities noted in Graphic Three, formal performance management meetings are key to success. Of course not all topics are appropriate for all audiences. Therefore, supplier management topics and meeting agendas must be carefully and formally crafted to achieve maximum benefit from the relationship at all levels in both organizations. By nature, the daily/weekly meetings will focus on short-term and business as usual activity, while the operations and strategic reviews will focus more on overall performance and partnership/new business potential.
Triggered by the need to better control costs, reduce risk, or tap into existing resources to address a new corporate requirement, Sourcing and Supply Chain Management groups will typically launch the supplier relationship management implementation process. It is important to note that a program implementation should not require tremendous incremental investment. The transition is a shift in the cultural mindset of an organization that requires universal organizational changes to be successful.

Steps to ensuring a successful program implementation include:

**Determine desired results**

This goes back to program objectives. Strategic Sourcing needs to build a business case that is sponsored by potential stakeholders in the business that impacts their P&L. The program needs to be sold internally, especially to the COO and CEO who will lead departments in its acceptance.

**Conduct maturity assessment of existing SRM**

Most companies have some element of an SRM program already established. Through a Maturity Assessment, Strategic Sourcing can determine at what level different departments are already managing their suppliers and use an SRM program to improve upon it.

**Review existing supplier management programs within the organization**

As Strategic Sourcing must build confidence based on the success of other SRM programs, existing supplier management programs should be showcased as part of the change management process to create buy-in with other departments.

**Develop a value map**

A value map outlines the company’s strategic objectives and the specific activities that support them. Not to be confused with the overall value derived from an SRM program as outlined earlier, these potential program values are aligned specifically with corporate objectives and supplier management activities. For example:

1. Improve Financial Performance (cost reduction, cost control)
2. Expand Business Growth (sell more product or penetrate a new market)
3. Introduce Innovation (new technology or methods of production)
4. Reduce Risk (ensure activities meet all compliance and regulatory rules)
5. Enhance Service Delivery Quality (ensure customers get the correct and complete answers)
6. Optimize Service Efficiency (faster and cheaper ways to deliver services to customers)
Establish SRM objectives with suppliers based on the value map

Based on the value map, specific goals can be accomplished with suppliers within the SRM program. As an example, if the corporate strategy is to establish stronger controls, perhaps in the wake of some regulatory scrutiny in the industry, the SRM goal might be focused on establishing a stronger risk/control framework with suppliers.

Build the shell of a program based on possible program components

Determine what types of tools, processes, and procedures should be used in managing and executing the SRM program (See Program Components). This will provide an idea of the scope of the program and involvement by other stakeholders.

Determine if an ROI approach is required

Should the goals of the SRM program be focused on cost savings, an ROI should be calculated with the help of Finance who can build a hard-dollar case for the SRM program. However, Finance’s involvement may not always be warranted if the SRM program is focused on a less cost-measurable objective such as risk.

Utilize case studies

To sell the program to stakeholders, research the company to determine if other successful SRM programs can be used as testimonials to the potential success of a similar initiative.

Segment critical suppliers and create a pilot program

Utilize the segmentation tool outlined earlier to identify the level of importance of current suppliers. Not all will be handled the same way. Even though a group of strategic and critical suppliers might be qualified for an SRM program, they may have different requirements, best practices, and processes associated with their segment of the program. Using one or two of the most critical suppliers identified during supplier segmentation, conduct a pilot program and gradually include other suppliers as the program proves successful and is accepted within the company.

Build an internal SRM team

Identify potential members of the team including: employees that currently interact with critical suppliers, conferring departments such as Finance and Legal, department managers contracting supplier services or products in some way, and executives that can provide ongoing strategic direction. Prep teams for meetings, creating scripts, and guidelines where necessary.
With all the potential value associated with supplier relationship management programs, why are more companies not implementing them? Moving a company to play a more strategic role in managing suppliers requires change management and a shift in perspective both internally and on the part of the supplier. An SRM program must be supported by the entire organization on both sides.

Buy-in may be slow as personnel already interfacing with suppliers will feel SRM is not their job. Not understanding how SRM can help them interface more productively with their vendors, many employees may believe maintaining new supplier standards is a whole new job in addition to how they are dealing with suppliers now. As companies downsize and resources tighten, many employees do not have the time to handle more responsibility or attend time-consuming meetings. In fact, many departments believe they are already managing their suppliers well enough, so there is no reason to implement a new program to get the same results.

Sourcing and Supply Chain groups responsible for SRM programs will continue to face road blocks like these until a successful pilot program builds confidence. Only a well-defined SRM program with specific objectives and goals, backed by active engagement from executive management, and led by experts will spur change in the way strategic suppliers are managed throughout an organization.
Strategic outsources can help Strategic Sourcing overcome many of these challenges and guide the shift to a new mindset in managing suppliers within different levels of the organization. They can also help gain executive buy-in for a pilot program by presenting findings from case studies similar to the organization’s operations.

Most Strategic Sourcing departments do not have experience with SRM and still continue to view supplier management as part of a short-term project associated with the sourcing process that lasts about a year or two. Having worked with thousands of suppliers as well as different types of organizations in the development and execution of SRM programs, experienced consultants fully understand what is important in a client supplier relationship and can pass that knowledge to a Strategic Sourcing team in developing a corporate strategy.

In many companies, Strategic Sourcing departments are stretched to their capacity and don’t have available resources to research and outline an SRM strategy. In these scenarios, and where internal experience in SRM does not exist, an experienced strategic sourcing third party can support a particular aspect - or the entire scope - of an SRM program. This includes assessing the merit of a particular good or service, program planning, and supplier management so that the firm can concentrate efforts and resources on core competencies.

Outside consultants can serve as part of an SRM team to identify revenue drivers, ensure organizational alignment, develop best practices, mitigate risk, reduce management costs, and develop supplier relationships that will create real value for an organization.

Once an SRM program is established, an experienced consulting firm can help Strategic Sourcing ensure it remains on track and that suppliers are added or removed based on changing business goals or terms and as contracts are renegotiated or adjusted. Consultants are a valuable resource to ensure the SRM program continues to run effectively.
CASE STUDY:
FINANCIAL SERVICES COMPANY ESTABLISHES SRM PROGRAM TO MITIGATE RISK & REDUCE COSTS

An international financial services company experienced high losses when an unexpected fire at the records management supplier’s building destroyed important client files. Two control breakdowns resulted in that loss. First, management was unaware of exactly what files were being safeguarded as an incumbent supplier typically housed less important business records. As such, the supplier was managed with little oversight and scrutiny. Secondly, minimal emergency controls were established at the supplier’s building. Outdated fire suppression and alerts allowed the blaze to burn uncontrollably.

Without discovery recovery safeguards in place to back up and secure documentation, the financial services company was unable to collect on debt from many customers as original legal agreements were destroyed. To mitigate future risk and address the increasing regulatory scrutiny from the Consumer Financial Protection Bureau and the country’s Financial Services Authority on how financial services firms are managing the activities of outsourced services/suppliers, executives received a call to action to establish a supplier relationship management program with critical suppliers.

This catastrophic event served as the catalyst to develop new supplier performance standards within an SRM program. The international financial services company worked with a consulting firm experienced in developing SRM programs to define and manage many aspects of the new initiative. First, rules of the road were established with Finance, business stakeholders, and the risk organization on what activities would count as value-attributed to the program. From here, suppliers involved with these activities were segmented for identification as viable candidates for the SRM program.

With executive and departmental manager input, strategic objectives of the program included mitigating future risk by providing insight into the risk profile, as well as saving $10 million across IT, Call Center operations, Collections/Recoveries, Marketing, and Credit Risk operations, and Card operations. Based on these strategic objectives, different levers or activities were identified as sources of value including tighter budget management, invoice verification, monitoring budget vs. actuals, and other controls.

Working with Finance and with the guidance from a consulting expert, Strategic Sourcing determined the necessary investment, in terms of budget, would be for SRM. Once approved by executive management and the departments that would be impacted by the SRM program, Strategic Sourcing conducted workshops with employees from a cross section of departments who had some responsibility in managing supplier/supplier spend as well as Legal, Compliance, and Risk Management to create the different tools, depending on their area of expertise (contracts via Legal, exit plans via business continuity experts, etc.).
With program components in place, Strategic Sourcing worked with its consultative partner to establish a pilot to prove the concept. The pilot program included just a few suppliers chosen by the executive sponsor based on the piloted segmentation tool as well as likelihood for success. As the program was a change management initiative, suppliers were chosen based on how they would be:

- Impactful (visible and measurable benefits)
- Likely to succeed (supplier was on board and viewed the financial services company as top-tier client)
- Supported by strong executive sponsor who believed philosophically about the value of the program

Once conducted, the Sourcing department running the program communicated results to the executives who shared information with internal peers about the specific successes in their areas, building further buy in for a full program roll out.

**Results**

Based on the success of the pilot, the $10 million goal program was rolled out. Supplier manager roles/responsibilities were established along with common activities/toolset. Approval was also granted for further investment and activity, which included training of supplier managers and a system reporting capability.

With the SRM program in place, the international financial company mitigated risk from potential losses due to unexpected fires or break-ins at its supplier site as well as ensuring regulatory compliance to government agencies on customer information. The success of this program opened the door for additional suppliers to enter the SRM program and extend the initiative to other areas of the business for additional cost savings.
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