

**Measure Twice - Cut Once:  
Construct the Optimal Supplier Relationship Program**

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**Abstract.** With the establishment of formal strategic sourcing programs, standardized contract language, and the deployment of e-procurement, many firms are asking "what else can supply chain professionals do to add value?" A formal sourcing process is your company's blueprint for successful supplier relationships, yet this process can consume your company's most valuable assets, employee time and energy, if not implemented effectively. Instead of jumping directly into a partnership, without forethought, planning prior to action will minimize false starts and disappointing results. While the results can be substantial, several questions should be answered due to resource constraints:

- How often should a sourcing cycle be repeated?
- Are there other methods of extracting value in addition to the formal sourcing process?
- What are the other options to minimize efforts while maximizing value?

Implementing a formal Supplier Management Relationship Program is the answer, yielding results based upon completed negotiations with key suppliers, and an eye towards a future partnership.

**Introduction.** While exploring answers to these questions, successful procurement organizations are constructing effective processes for working with suppliers post contract finalization. This formal program is called a SMRP - Supplier Management Relationship Program. The formal program consists of six unique steps for each supplier (The Supplier Plan) where value is believed to be extracted beyond the contract specifications.

Each "Supplier Plan" includes the following steps:

- 1) Articulate the desired relationship
- 2) Establish a preliminary relationship plan
- 3) Explore the potential joint commitment between the supplier and your company
- 4) Design a joint relationship management team
- 5) Develop processes for doing joint work and executing objectives and measures, and
- 6) Reassess the relationship against the original objectives and measures.

A single point of accountability for orchestrating each Supplier Plan is pivotal for success. Additionally, while every step may appear simple, each requires introspection as to how your procurement professionals work with their internal clients as well as the suppliers, concentrating on the "human resource" side of business. Tactful communication strategies will need to be practiced in order to achieve specified goals. These Supplier Plans, deployed with rigor, will enable your organization to add substantially more value through the Supplier Management Relationship Program.

**Step 1: Articulate the desired relationship.** This first step in the Supplier Plan is one that requires a mindset shift for many procurement professionals. In many companies, "sourcers" are rewarded for just "doing the deal" - pounding out the best price and saving the company money. But what happens once the contract is signed? Who manages the relationship? How is quality ensured? Changing your negotiating team's approach may help in meeting the longer term goals of adding value with suppliers as partners. Forming a partnership starts at the negotiation table, prior to any contract being signed. Keeping the long-term endpoint in mind requires a shift - from a "deal maker" mentality to an implementation mindset.

Secondly, companies with successful SMRPs know the importance of assigning a single point of accountability for managing each Supplier Plan. Each Supplier Plan will be unique - but should leverage processes for managing a team that have proved successful in the past.

Finally, this initial task of establishing a credible SMRP could be overwhelming if your company believed that all suppliers required a high degree of partnership - which obviously is not true. Making choices by investing time with a few suppliers as a pilot, then learning and readjusting, will lay the foundation for your company's SMRP success.

**Step 2: Establish a preliminary relationship plan.** In order for a supplier relationship to grow and prosper - a preliminary high level plan consisting of three elements needs to be developed. First, the goal of the relationship needs to be defined with enough specificity so that each party will clearly understand why they will be investing precious time beyond contract finalization. Secondly, a well-written and organized summary of the contract specifications needs to be created as the starting point for future discussions. And finally, resources need to be identified that could work with the supplier.

**Step 3: Explore the potential joint commitment between the supplier and your company.** It is imperative that each party understands what will be required in order to build a successful partnership. That partnership could be at a low, medium, or high level - depending upon the parties' agreement as to how they want to interact with each other. The low and high ends are summarized below. By reviewing the partnership components prior to starting your formal process, it will help you establish the level of partnership you desire with each key supplier.

Partnership Component	Low	High
Planning: Style	ad-hoc	systematic; scheduled and ad-hoc
Planning: Content	sharing plans	performing jointly & at multiple levels
Joint: Metrics	independent	jointly developed and shared
Joint: Make changes	suggest	access and change without approval
Communications: Non Routine	limited	planned and occurs at all levels
Communications: Day to Day	ad-hoc	communications systems are linked
Risk/Reward Sharing: Loss	low for loss	high tolerance for short term loss
Risk/Reward Sharing: Gain	limited to help	desire to help other party gain
Risk/Reward Sharing: Fairness	by transaction	measured over life of relationship

Reference:HBR, December 2004 We're in this Together Douglas M. Lambert and A. Michael Knemeyer

**Step 4: Design a joint relationship management team.** Now that you have accomplished some of the necessary legwork prior to your first meeting, take a moment to look back. Does establishing the preliminary relationship plan and/or exploring the desired level of partnership change your initial desired goal? Is your desired goal specific enough? Did your initial planning change the resources needed from your company? From your supplier? Take a moment to adjust your preliminary assumptions prior to team set-up.

Post reflection is the time to develop in more detail the mechanics of the supplier relationship management team. These include the governance plan and team charter (goal, partnership level desired, and summarized contract specifications from steps 2 and 3), team membership with well defined roles and responsibilities, meeting frequency and structure, issue escalation and resolution processes, communication processes, and finally your process for making decisions.

**Step 5: Develop processes for doing joint work and executing objectives and measures.** It is now time to meet formally with your supplier and share in detail the planning and assumptions developed in steps 1-4. After gaining agreement as to how work will be jointly done, the focus should shift to developing a list of projects to tackle with measurable outcomes to be monitored. Project plans will be developed by team members and formally reviewed as stated in the governance plan.

Once again, there is one point of accountability- the point person. It is paramount that throughout steps 1-6, he/she reflects back on the assumptions made and adjusts expectations both within the company as well with the supplier so that both parties can be successful. Communication skills including tactful strategies to deal with multiple levels of personnel with varying degrees of understanding are critical for success of each Supplier Plan.

**Step 6: Reassess the relationship against the original objectives and measures.**

Successful SMRPs always reassess along the way- understanding what is working well and what needs adjustment. Recalibration of goals and deliverables is required by both parties periodically. Benchmarking leaders in the marketplace from within and outside of your industry will help steer adjustments to your original SMRP. Post project reviews, communication of successes, and celebration of accomplishments will all lend to the sustainability of your Supplier Management Relationship Program.

### **Conclusions and Recommendations.**

A formal sourcing process consumes your company's most valuable asset- employee time and energy. No one can afford to waste their resources. So, how do world class procurement organizations continue to add value without constantly churning through strategic sourcing initiatives? Measuring twice and cutting once...it's all in the careful, deliberate preparation.

With limited resources, leveraging your current key suppliers by implementing a robust and carefully articulated Supplier Management Relationship Program is one answer to continuous value creation. Success will be reached by being realistic, starting with a pilot and learning from it, assigning clear accountabilities, planning what you will do and how you will do it, and last but not least, communicating, communicating, and communicating.

## REFERENCES

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