

Beyond Strategic Sourcing: Strategic Supplier Relationship Management

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Abstract. Supply management became increasingly important in the last years of the twentieth century with the concurrent rise of strategic sourcing. By 1998 over half of Fortune 500 companies had a strategic sourcing program in place. Centralized purchasing departments were empowered to leverage the entire spend of the organizations. Many firms have reported 15% to 20% annual cost savings and the boardroom is now counting on this contribution to continue. The increase in outsourcing non-core functions continues to expand the sourcing opportunity.

When strategic sourcing successfully establishes a relationship it also provides the opportunity for the next high value contribution by supply management through strategic supplier relationship management (SRM). The results of successful SRM can yield even more competitive advantage than strategic sourcing and can be the next contribution to the boardroom. This presentation will provide the elements of SRM processes for your organization to deliver competitive advantage.

Seeing the SRM Elephant. Over the last two years one of the often repeated acronyms in our supply management business is SRM. This acronym is now widely used in our industry by various factions with very different meanings. Very much like the blind men and the elephant poem, SRM is very much in the eye of the beholder. Many software product tools advertise they are “the” SRM solution. Various consultant firms offer to deliver SRM through variety of solutions they describe as SRM.

SRM is not just an automation tool. SRM is not just a consultant delivered solution set. SRM is not just supplier development. SRM is a broad based management methodology describing how a firm interacts with the strategic supply base. SRM is philosophy about supplier relationships that is driven from the boardroom and shared through out the organization by the rank and file members. SRM is a philosophy that is shared between the supplier boardroom and rank and file employees interacting with your firm. Every firm has a management philosophy for interacting with its strategic supply base. World class SRM firms have a philosophical belief in integrating suppliers as strategic assets and working together for continuous improvement of mutual value.

SRM is very similar to the W. Edwards Deming approach to quality management; a process not a program, a process to acquire knowledge, a cultural change, not automatic, must be learned and must be led. As in quality, the need to collect data is a critical element, supplier/buyer teams, performance objectives, technology road maps, new product development all should be elements of SRM process all are part of the SRM elephant. SRM is identifying the strategic suppliers and applying a management methodology that results in break through improvement in cost, quality, service, and technology, enhancing the

competitive market performance of your firm and your supplier and most importantly resulting in increased shareholder value for both firms.

Lessons Learned from Strategic Selling. The sales force has always recognized the unique importance of the strategic customer. Major customers are so important that a firm's market valuation may rise or fall upon losing or gaining a single large account. Sales people can get rich or fired over the gain or loss of a single large account. In fact, the sales force has responded quickly to the changes in supply management. Centralization, globalization, strategic sourcing, interface simplification, B2B exchanges, and reductions in the number of suppliers have caused sales organizations to focus their efforts on keeping large accounts. The sales force has been reorganized from a traditional sales force selling to all types of accounts to a specialized sales force dedicated only to "key accounts". The sales force has even specialized in technique and practice to selling into and keep these "key accounts". There is a huge training program with a widespread base in the Global 2000 companies teaching "The New Strategic Selling". This is larger and more widespread than the ubiquitous Karass negotiating seminars. They have crafted a system for strategic account managers to collect key elements of information, for example who is the economic buyer, who is the technical buyer, what are the firm's actual requirements, issues, what value should be sold and to whom, they call these blue sheets and they are widely used by the Global 2000 sales force.

On the Supply Management side we have often seen the results. The National Account Manager from IBM (Heimans corporate experience) is servicing the needs of the CIO and CTO and gets repeated sole source orders. The National Account Manager is not just an obnoxious salesman, he is carrying out the strategy developed on a Heiman blue sheet and this has been extremely effective.

Supply chain professionals need to develop equally impressive strategy templates for key suppliers to determine the real opportunities for improvements in cost, value, quality and end customer satisfaction. We must understand what the National Account Managers are doing and manage our firm's response. We need to jointly develop synergistic opportunities collaborating with our National Account Managers.

The Process Steps for SRM. The SRM process is a continuous dynamic and iterative process similar to the Deming "Plan Do Check Act" including but not limited to the following steps:

1. Spend Analysis: What are you buying, how much is the cost and who are you buying it from
2. Diagnostic of the spend: Conduct Pareto analysis and determine the key spend items
3. Supplier segmentation: Analyze the supply base and determine the mix of commodity suppliers, preferred suppliers and strategic suppliers
4. Select the strategic suppliers for that offer opportunity for SRM
5. Plan your SRM process for a few select suppliers
6. Pilot SRM with a few select suppliers
7. Education and organizational development
8. From pilot experience, develop SRM strategy planning and integration with remaining suppliers selected for the process
9. Include measurement, benchmarking, supplier scorecard, agreed upon goals as part of the process

10. Select key projects for change and improvement with each of the selected suppliers
11. Roll out program to all selected strategic suppliers
12. Implement and manage projects and processes for all selected suppliers
13. Continuous review, measurement and improvement

SRM Improvement Projects. Just as the SRM practices can be modified from the world class supplier development practices, the processes are identified in good project management can also be incorporated into SRM process, The Purchasing Machine identifies twelve steps of effective projects:

1. Identify and review the performance gap
2. Discuss specifics about how the project will be approached and implemented
3. Work to achieve mutual agreement on project teams
4. Identify processes that result in waste
5. Compare performance gaps with desired state
6. Establish project metrics and metrics baselines
7. Gather and analyze data
8. Develop improvement strategies
9. Develop and implementation plan
10. Calculate the return on investment
11. Create and review a proposal with the supplier's management
12. Execute the improvement plan

Just like the practices, the above is an excellent project process for supplier improvement project, all we need to do is make them bilateral rather than unilateral and they can be applied as an SRM tool. We don't just need a buyer led improvement team; we need an integrated team dedicated to synergistic collaboration.

SRM Practices. Very much like the Quality movement, the practices for SRM have been created and are available it is a matter of how and when they are applied. Many of the practices we are currently using in "Supplier Development" are very applicable, for example a list of "Best Practices in Supplier Development" according to World Class Supply Management is a good starting place:

- Create dedicated supply development teams (with no responsibility or jobs other than supplier development)
- Teach a supplier how to develop itself after initial guidance from the supplier development team
- Focus on underlying causes of long cycle times
- Focus on wasteful activities of all supplier efforts
- Involve suppliers in new products and process development at the buying firm
- Provide training programs and training time to suppliers
- Provide education programs offline that go beyond training
- Provide improvement focused seminars for suppliers
- Provide tooling and technical assistance to suppliers
- Provide supplier support centers
- Loan executives, such as process engineers and quality managers
- Drive fear out that a supplier's work force may have toward supplier development programs

- Set “stretch goals” to encourage radical change as well as continuous improvement
- Improve accounting systems to enable measurements of improvements
- Share the savings from the development improvements
- Encourage suppliers to contribute to improving processes at the buyer’s facilities
- Provide a feedback loop for suppliers to help encourage supplier development efforts
- Improve supplier’s supply management systems

All of the above are world class supplier development practices, for SRM application we need to make them bilateral rather than unilateral and they can be applied as SRM practices. We don’t just need supplier goals, or supplier training and education but we need mutual goals, mutual education and training of both buyer and supplier and the deepest commitment to synergistic collaboration.

The Metrics/Tools. Measurement is a critical success factor in implementing SRM. Like quality management, if you can’t measure it you can’t improve it. Data must be collected in a number of areas just to determine the opportunity. The first step is a diagnostic of spend and supply base which is required to determine the key drivers of your supply chain and the role of key suppliers. If your firm has completed a strategic sourcing initiative, this data is probably collected and available in a data warehouse. The next step is to segment your suppliers using the data collected. Determine the commodity suppliers, the preferred suppliers and most important identify your firms strategic suppliers. Ten percent of your suppliers are probably 85% to 90% of the total spend for goods and services. Data is critical to conduct the supplier segmentation and identification of the strategic suppliers who provide opportunity for SRM. Unfortunately, in addition to data this analysis also requires knowledge of the business, the role of the suppliers and what strategies can be applied to result in improvement. This is the intelligence that must be added to the data.

Metrics, in fact, are considered so important that a growing number of software houses have recognized the SRM elephant and decided to offer “SRM” products. These products include spend analysis, data warehouses, supplier performance measurement, integrated data marts from diverse data bases across the enterprise, tools for ranking and optimization of the supply base. Many of the major players in e-commerce for procurement have recently developed product described as SRM solutions: Commerce One, SAS, Peoplesoft, SAP, Ariba, Manguanistic and many others.

Metrics are required to perform SRM, required for spend analysis and required for the segmentation process. Metrics are necessary to measure ongoing supplier performance and the software products offer valuable tools to do this. Unfortunately, the most challenging elements of SRM still requires supply management professionals with a broad range of skills. The actual opportunity analysis, the final identification of the strategic suppliers that offer opportunity; the strategy development to select projects and drive improvement and the ongoing leadership of the relationship still require the professional highly skilled manager.

The People. Most of our procurement/supply management team have developed extensive experience in leveraged procurement. Large numbers have been trained in negotiations and strategic sourcing with cost savings as the primary method of measuring success. Many of our

people excel at the Jose Ignacio Lopez style of extracting the last drop of blood from the supplier. The role of purchasing professionals in leveraged negotiation is legend.

What happens when a three-year contract is awarded and the National Account Manager is assigned to this account? Is the leveraged buyer prepared to enter into this new phase of the relationship? What are the mutual strategies to develop the maximum value, service, cost? Is the leveraged buyer trained to choose the right metrics to measure performance, to establish the goals and objectives for the contract, to work in mutually beneficial project improvement teams? Is the National Account recognizing the role of the Commodity Manager and prepared to work with them?

The skills required for SRM are as different as Karass' The Negotiation Game is to Fisher and Ury's Getting to Yes. The skills needed for SRM are very similar to the skill required for strategic account sales and we have a huge gap in this area. The gap needs to be closed by training and educating our people to become SRM process leaders. The skills needed for successful SRM include but are not limited to project leadership, facilitation, team leadership, process knowledge, product knowledge, principled negotiation and change management.

Summary. As we enter the 21st century, we find that many Global 2000 firms have successfully implemented strategic sourcing with great success. The Boards at these Global firms have recognized the contribution that supply management is making to shareholder value. Strategic sourcing is not the end state of supply management improvement but just a stage paving the way for new opportunities. SRM is one of the next opportunities for great supply management contribution. By integrating selected strategic suppliers into a win-win improvement process an opportunity is created for breakthrough value creation.

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