

# Supplier Relationship Management

## A Case Study

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ISM Annual Conference  
December 06, 2002

# Allstate Corporation

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- **Largest publicly held property/casualty insurer in the United States**
- **Over 50,000 employees**
- **15,000+ producers**
- **Insures 1 out of every 8 cars and homes in the U.S.**
- **Offers a wide range of financial & retirement products**
- **Offers customers convenience and choice to interact with us 24 hours a day, 7 days a week through multi-channels:**
  - **Allstate Agency**
  - **Toll free telephone access**
  - **Internet**

# Allstate Procurement Governance

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- **\$13 Billion Direct Spend – \$9 Billion sourceable**
    - **Significant amount in services**
      - **Carpet/carpet installation**
      - **Home building materials/repair (contractors)**
      - **Windshield repair**
      - **Auto parts**
      - **Rental cars/temporary living arrangements**
      - **Medical providers**
  - **\$2 Billion Indirect Spend**
    - **Travel/Office supplies/ Furniture**
    - **Contingent labor**
    - **Benefits**
    - **Advertising/marketing**
    - **Professional services/ managing consulting**
    - **Legal services**
    - **Technology – Hardware/Software/Telecom/Consulting**
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# Agenda

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- Why Supplier Relationship Management (SRM)?
- Supplier Segmentation
- Metrics
- Getting Started
- Developing the Competency
- Early Results
- Questions?

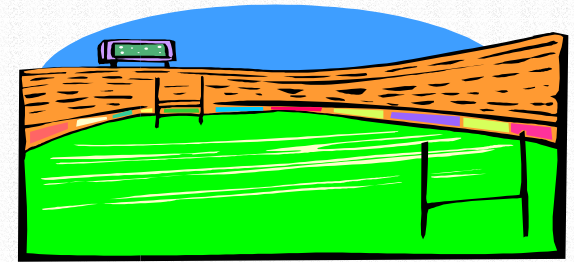


# Why SRM?

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- To level the playing field
- To extract additional value
- To stay on top of our game

# Level the Playing Field

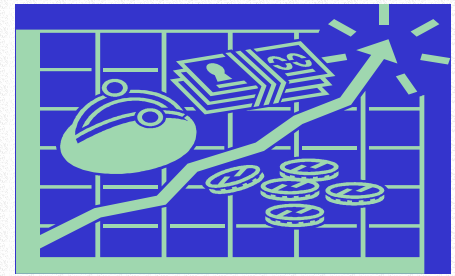


## Suppliers

## Buyers

Focus	Dedicated team	Often split
Training	10 – 20 %	3 %
Access to information	Wander around our place of business	Knows what the supplier wants them to know
Incentive	Compensation directly linked	To please impatient internal clients
Support	Marketing, Advertising, Product brochures...	Are you kidding?
Product knowledge	Extensive	Inconsistent
Resources	30% of workforce	LT 2% of workforce
Time	Often works for them	Work piles up

# Extract Additional Value



- Strategic sourcing
- Demand management
- Operating efficiency
- Supplier relationship management

# Strategic Sourcing

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- Consolidate purchasing
- Client requirements gathering
- Industry/supplier analysis
- Create competition (RFx, auction)
- Disciplined selection process
- Effective negotiations
- Contract management



# Demand Management

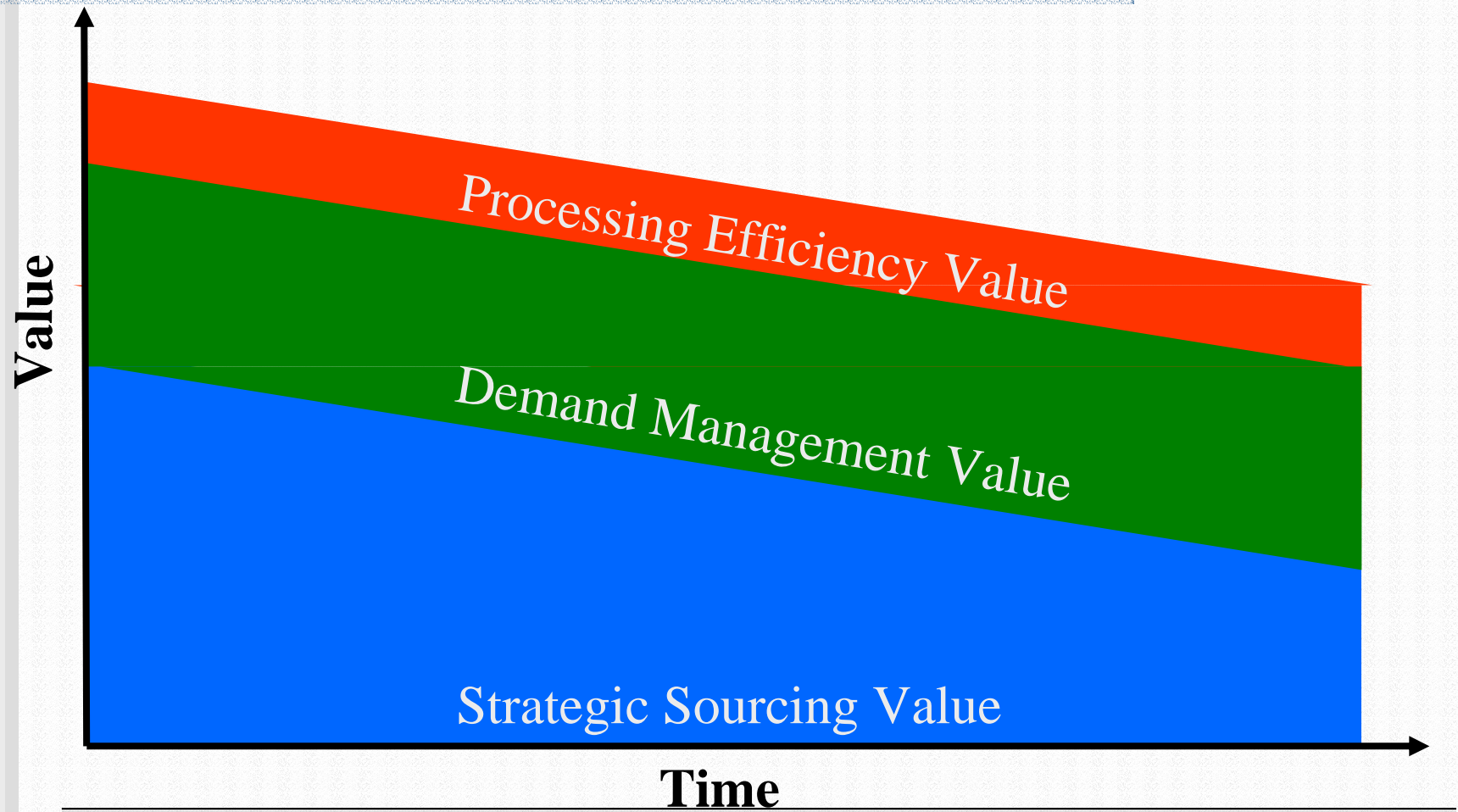
- Manage what/when clients can buy:
  - Order from select catalogue
  - Product standards
- Monitor use of chosen suppliers
  - Non-compliance reported
- Create process rules
  - Contracting authority
  - Involve Procurement early
- Create commodity rules
  - Airline travel booked 14 days in advance
  - Minimum mileage for company car trade-in

# Operating Efficiency

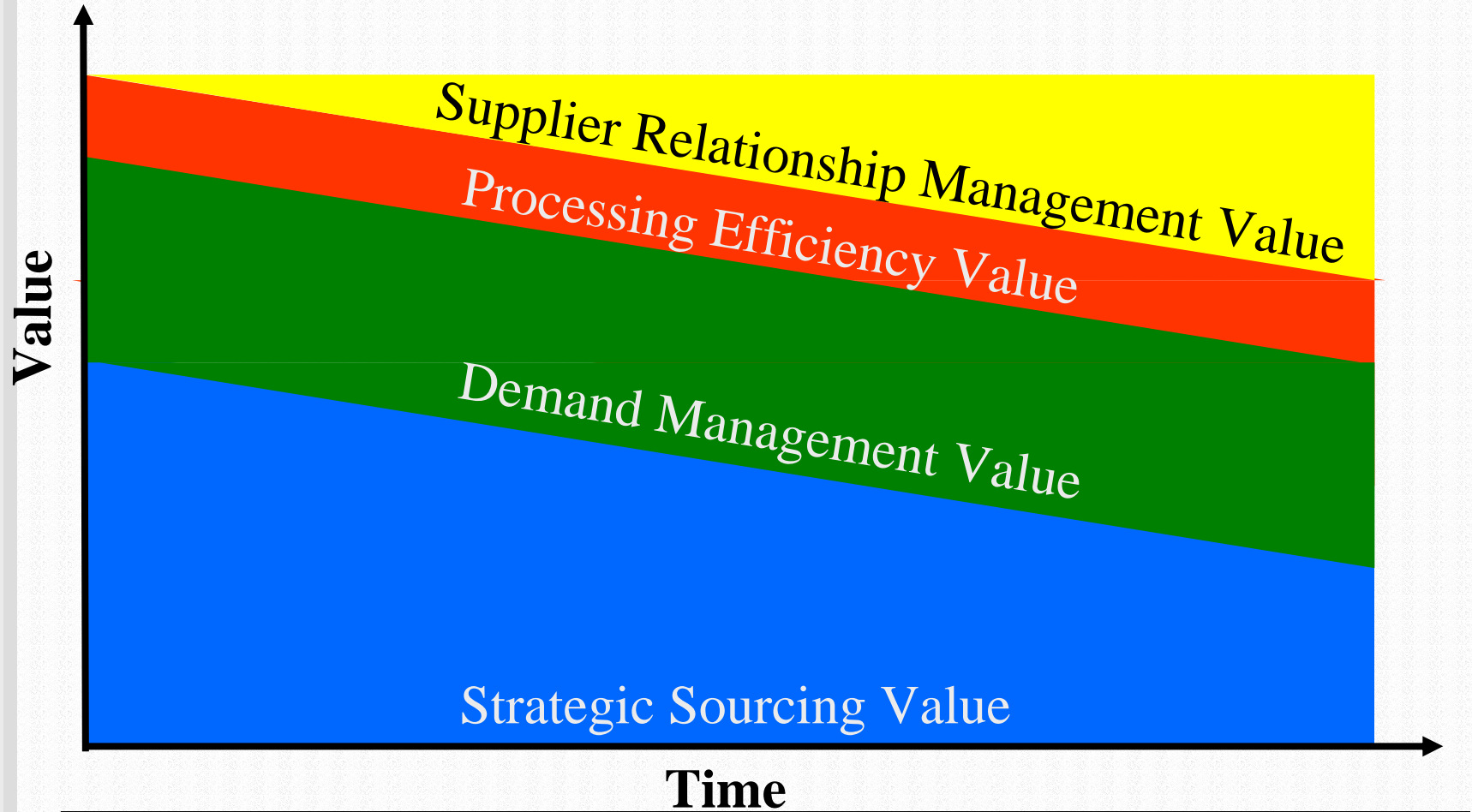
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- Standardized contracts
- Contract database
- Supplier database
- Standardized RFP formats
- EDI
- EFT
- Online auctions

# Extract additional value



# SRM Sustains the Value Added





# Stay on Top of Our Game

Regardless of the outcome, top procurement operations continually investigate best practices.



# SRM Journey

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- Selected 10 Technology suppliers
- Segmented by attributes
- Segmented by behaviors
- Involved 3 suppliers in pilot
- Roll out to rest of suppliers
  - Addition of 3 dimensional analysis

# Supplier Segmentation

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Segmentation is essential to:

- Identify relationship to which you aspire
- Articulate the current state
- Identify gaps
- Allocate resources
- Identify appropriate actions

# Supplier Segmentation

We had more disagreement about naming the supplier categories than we did about defining them!





# Supplier Segmentation

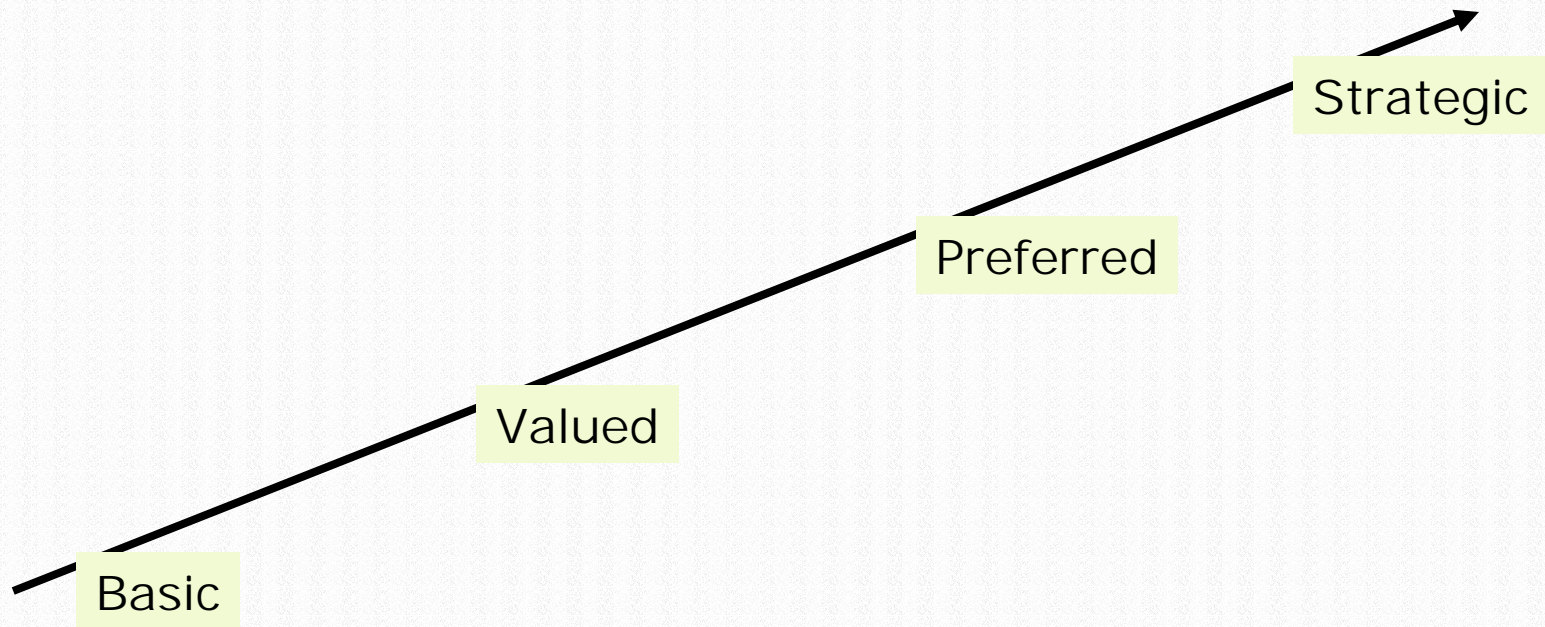
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Suggested names for the most basic supplier category included.....

- Chosen suppliers
- Capable suppliers
- 'D' level suppliers
- Tolerated suppliers
- Non-essential suppliers
- The "Dark Side"

# Supplier Segmentation

Early thinking suggested multiple supplier categories along a continuum



# Attribute Model

## Example Attributes

Attribute model enabled us to begin to group suppliers into desired categories based on general attributes

	Basic	Valued	Preferred	Strategic
Planning Horizon	Current deal; singular operation	Ongoing multiple exchanges; near term planning	Specified endpoint; some joint strategic planning	Unspec. endpoint: ongoing intent to co-create value
Relationship Mode of Operation	Competitive bid	Performance incentives	Continuous improvement	Experimentation and learning, collaboration
Management Cost / Level of Involvement	Low – staff members	Intermediate – leadership level management	High – executive leadership	High – Sr. executive leadership

# Attribute Model

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- Adapted from models published by others
- Attribute model has limited usability
  - Very general
  - Fails to help describe current state
  - Fails to differentiate between supplier and buyer attributes



# Behavior Model

Example Behaviors		Basic	Valued	Preferred	Strategic
Management Level of Involvement	Supplier	<ul style="list-style-type: none"> <li>Works with person designated by Allstate.</li> </ul>	<ul style="list-style-type: none"> <li>Works with person designated by Allstate.</li> <li>Local account representative assigned to Allstate account.</li> </ul>	<ul style="list-style-type: none"> <li>Meets regularly with designated Allstate representative(s).</li> <li>Meets with executives on an as needed basis.</li> <li>Local account team with a leader and on site assigned to account</li> <li>Executives participate in quarterly reviews.</li> </ul>	<ul style="list-style-type: none"> <li>Continuous dialogue among senior executives.</li> <li>Allows Allstate to hire/fire account staff</li> <li>On site staff interfaces with appropriate Allstate personnel at all levels.</li> <li>Account Executives subject to Allstate approval.</li> </ul>
	Allstate	<ul style="list-style-type: none"> <li>No preferred access to management provided.</li> </ul>	<ul style="list-style-type: none"> <li>Allstate designates a manager who acts as the primary point of contact with the supplier.</li> </ul>	<ul style="list-style-type: none"> <li>Sr. Management directs and supports business initiatives.</li> <li>Executive available as needed.</li> <li>A specific relationship manager designated</li> <li>Executives may participate in quarterly reviews.</li> </ul>	<ul style="list-style-type: none"> <li>Continuous dialogue occurs.</li> <li>Allstate commits Sr. executive to sponsor and nurture relationship.</li> <li>Other Allstate leadership is available to the supplier as needed.</li> </ul>

# Behavior Model – add'l examples

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- Pricing/Business volume
- Brand Name Usage
- Supplier recognition
- Customization/product influence
- Business interaction
- Risk sharing
- Information sharing
- Commitment to periodic reviews

# Behavior Model - Assessment

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- Helps analyze relationship
- Observable, measurable behaviors
- Assesses aspirational level and current state
  - Allstate and suppliers evaluated self and other party
  - Identified mismatched behaviors and perceptions
- Aligns supplier and Allstate behaviors
- High behavior standards temper supplier desire to be called "strategic"
- Initial feedback positive

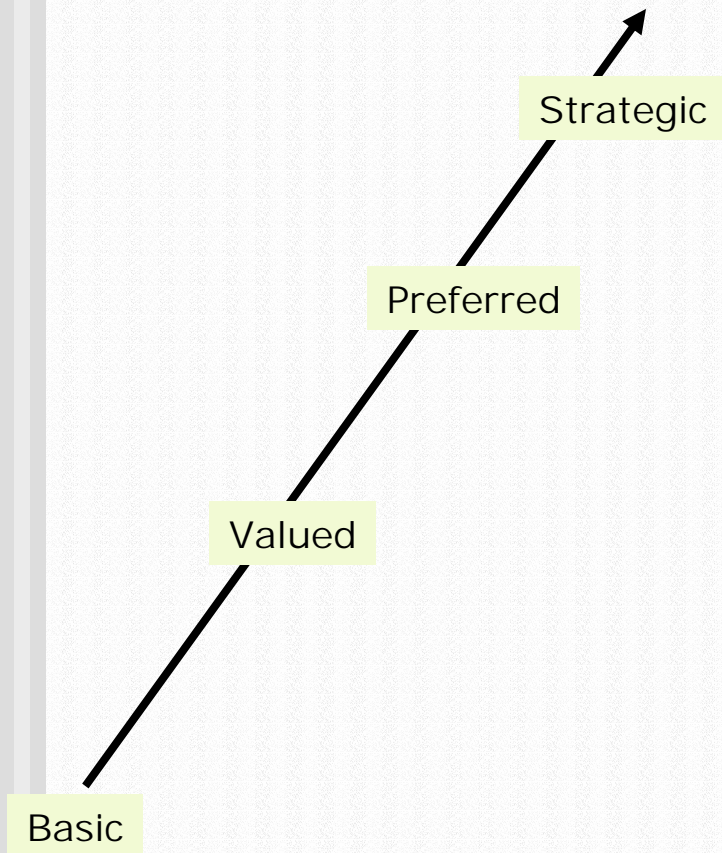
# Supplier Segmentation

In spite of the improved usability of the behavior model it was still one dimensional and needed further evolution





# Supplier Segmentation

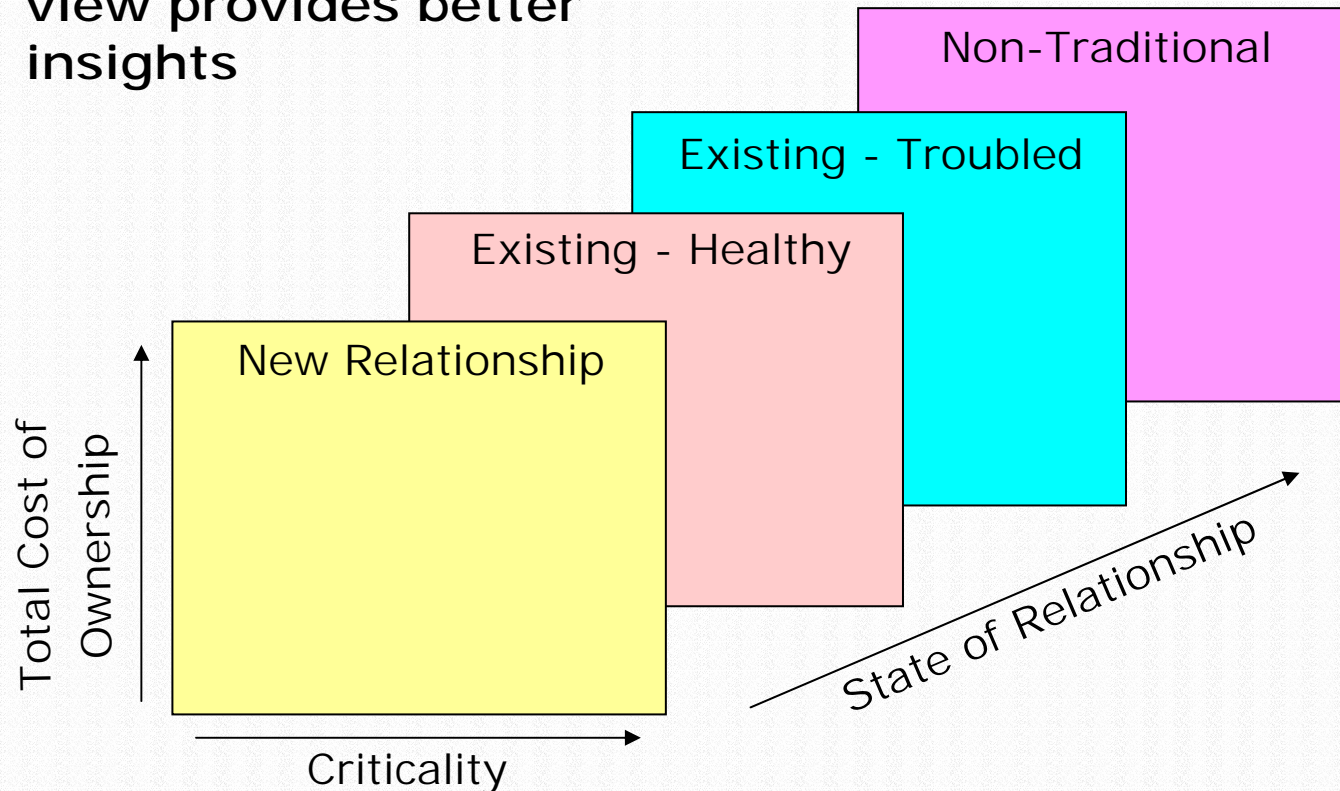


## The single dimensional view

- Extremes easily defined, middle categories confusing
- Blends rather than distinguishes among evaluation components
- Fails to address relationship health
- Works best for new relationships
- Does not provide guidance regarding how to proceed

# Supplier Segmentation

A multi-dimensional view provides better insights



# Total Cost of Ownership

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Initial purchase price seldom fairly represents the total cost of ownership.

- R&D
- Testing
- Installation
- Warranties
- Service and maintenance
- Operating supplies
- Buy/pay/track
- Inventory/storage
- Disposal

# Supplier Criticality

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## Factors impacting criticality

- Touches customer or agent
- Aids growth/profitability
- Aids transformation into a financial services powerhouse
- Depth of integration
- Absence of alternatives
- Alignment with Allstate goals and values

*Note - These factors are appropriate for Allstate, yours may be different*



# State/Stage of the Relationship

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- New relationship
  - New supplier
  - Major shift in commodity purchased
- Existing relationships
  - Healthy
  - Troubled
- Non – Traditional
  - Potential for significant reward
  - Fostered by most senior leaders – not procurement led

# State/Stage of the Relationship

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- Most relationships are basically adversarial, not cooperative alliances
  - Adversarial does not mean negative!
  - Goals are not aligned
    - Supplier goal is to take buyer's money. Their responsibility is to their shareholders
    - Our goal is to keep our money and obtain needed goods or services
- Original position - relationships built on trust
- Revised position – relationships built on respect

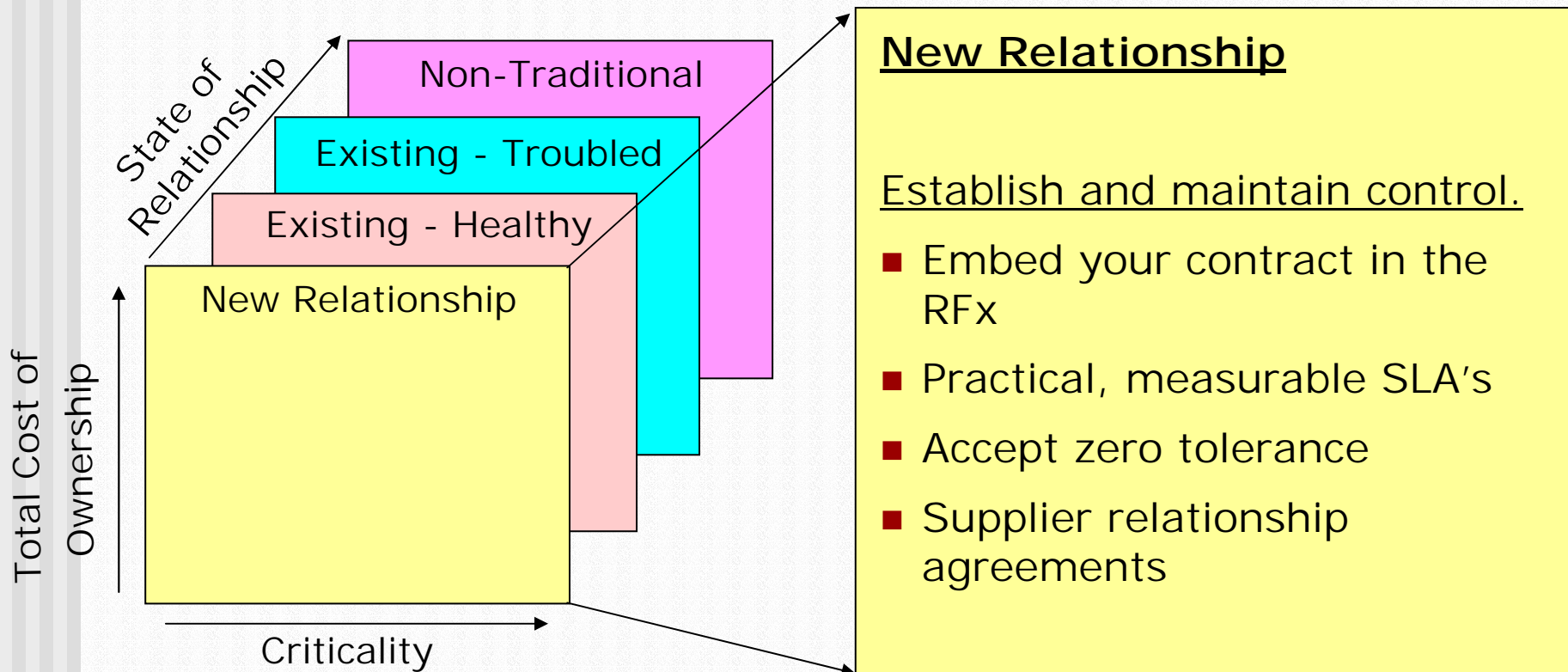
# Supplier Segmentation

Assembling the pieces. . .



- TCO
- Criticality
- State/Stage

# Supplier Segmentation





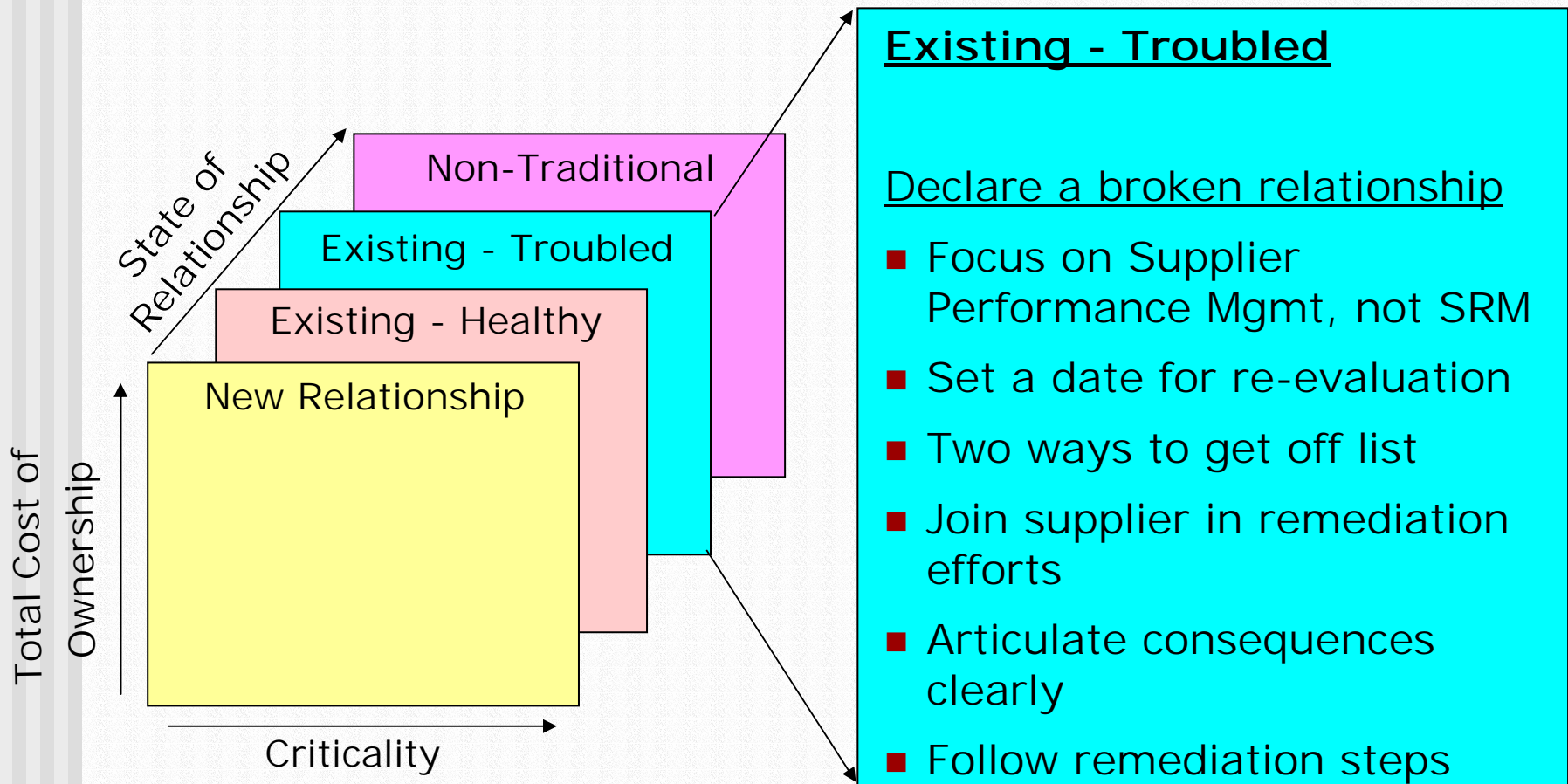
# Supplier Relationship Agreement

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Both parties agree: (examples)

- Negotiations will be carried out in good faith
- Appropriate acceptance testing time
- To renegotiate if business changes
- RFx responses will be documented as part of the contract
- Process will be followed:
  - Supplier provides plan for delivery
  - Metrics established together
  - Supplier will provide warranty that results will be met
  - Remedies will be defined and implemented

# Supplier Segmentation

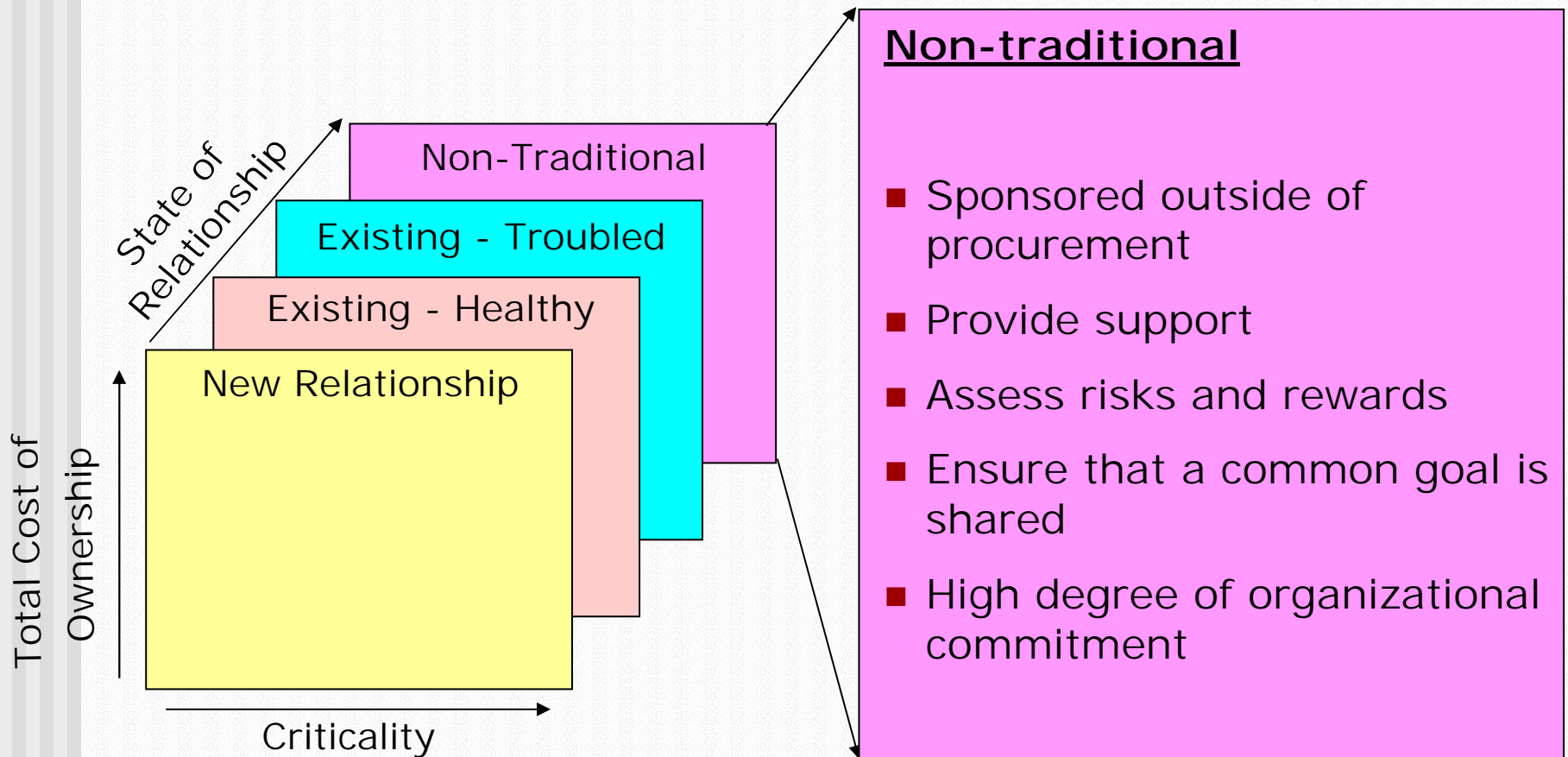


# Remediation Steps

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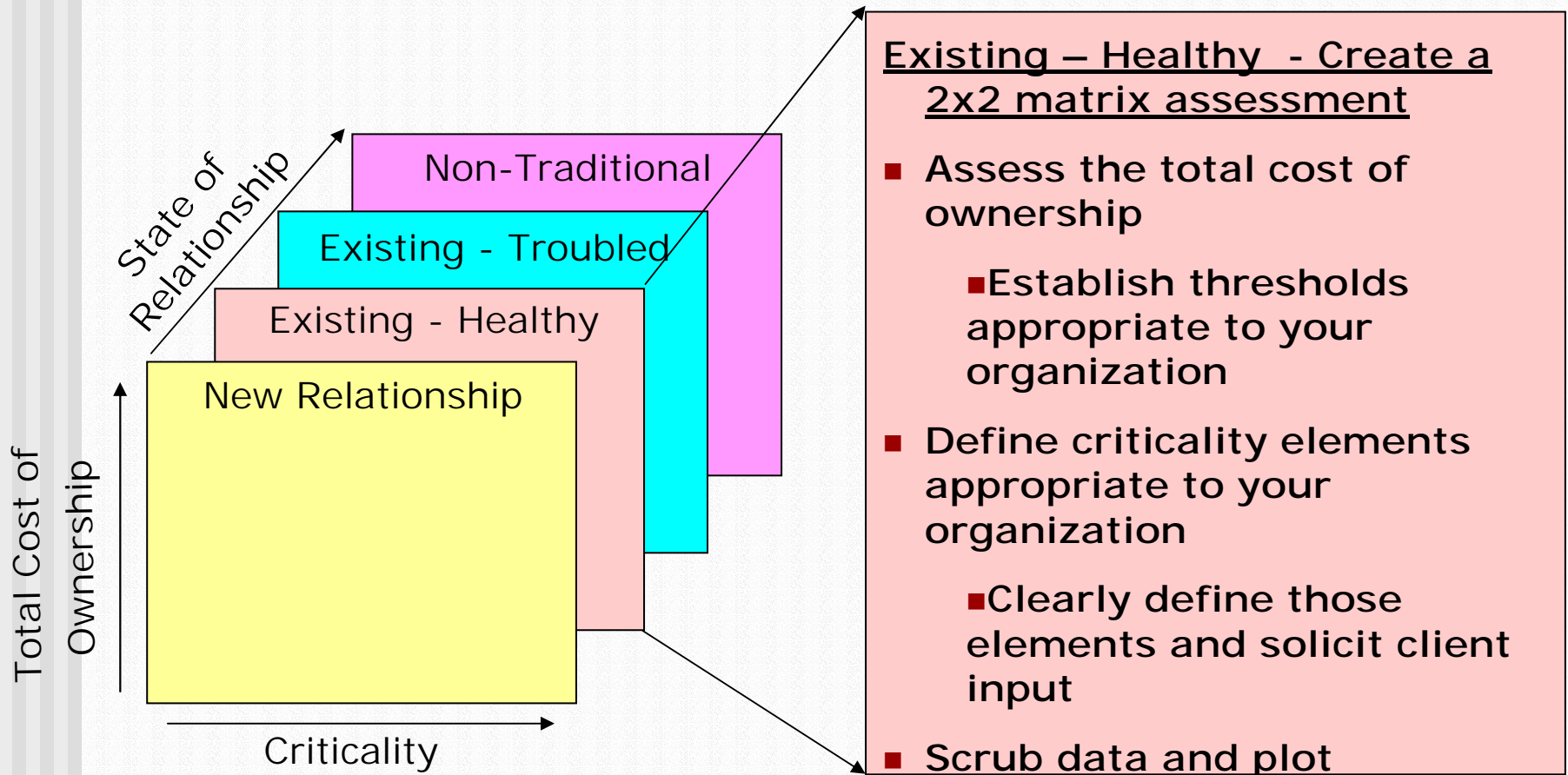
- Inform supplier
- Build on existing metrics
- Introduce new metrics
- Gain attention of people who can influence situation
- Invoke sanctions
- Provide frequent assessments
- Live up to your obligations
- Developing an exit strategy
- Last resort, execute exit strategy

# Supplier Segmentation





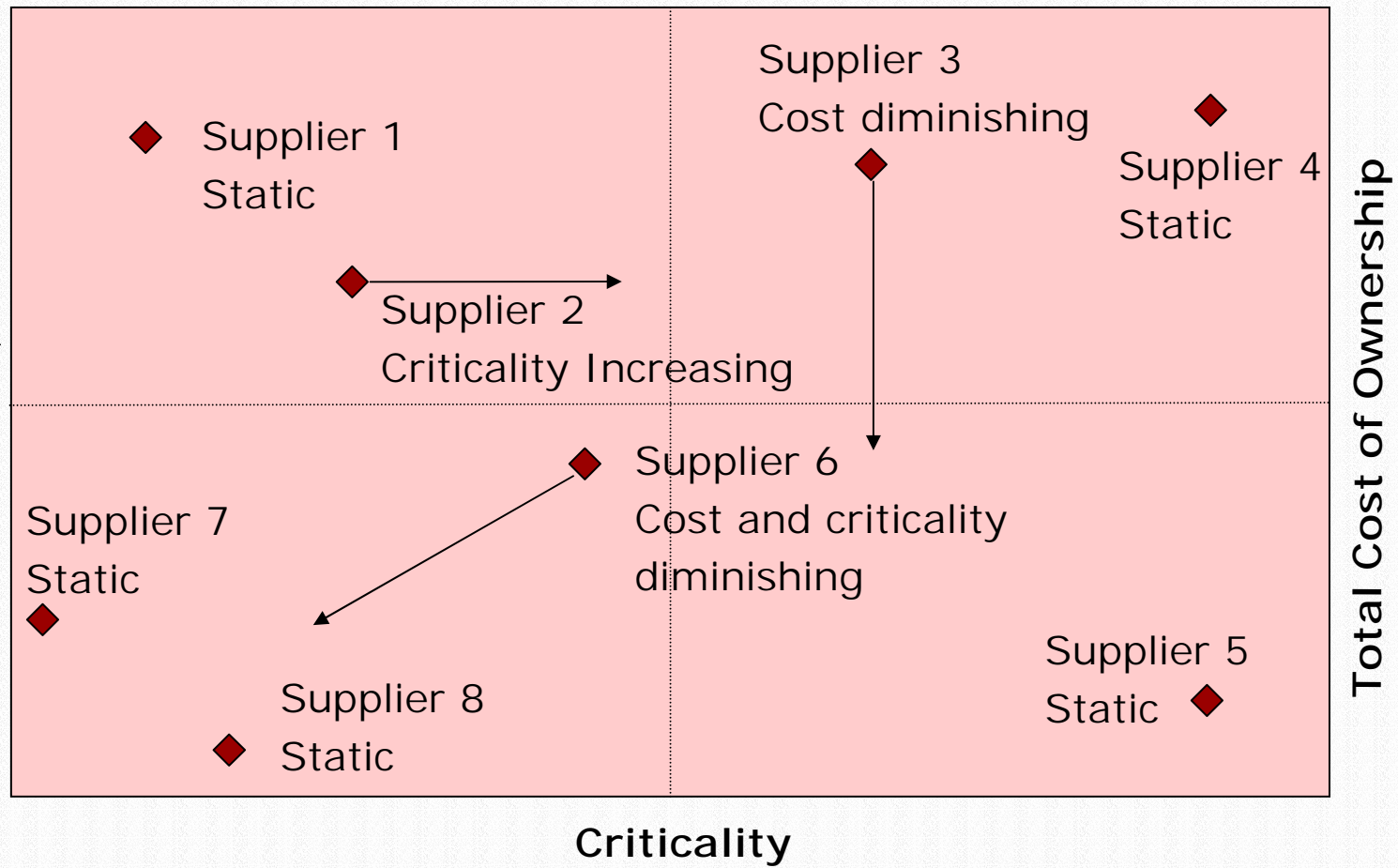
# Supplier Segmentation



# Healthy Relationships

## Tip!

Plot suppliers based on current status and where the relationship is headed



# Healthy Relationships – placement

Total Cost of Ownership

## High Cost/Low Criticality

- NW & SE quadrants replace the valued and preferred categories
- These are managed very differently

## Low Cost/Low Criticality

- Similar to “Basic” supplier from single dimension model
- Most suppliers will be in this space

## High Cost/High Criticality

- Similar to “strategic” supplier from old model
- Don’t confuse with “non-traditional”
- Few suppliers in this space

## Low Cost/High Criticality

- NW & SE quadrants replace the valued and preferred categories
- These are managed very differently

Criticality

# Healthy Relationships - Management

Total Cost of Ownership

- Next assignment for trained personnel
- Manage as an expense
- Focus on analyzing TCO
- Promote cost reduction benefit sharing with supplier
- Sustain competition
- Manage SLA to avoid leakage

- Limit your resources
- Assign to newer personnel
- Create competition.
- Focus on operational efficiency
- Provide supplier with minimal opportunity to market

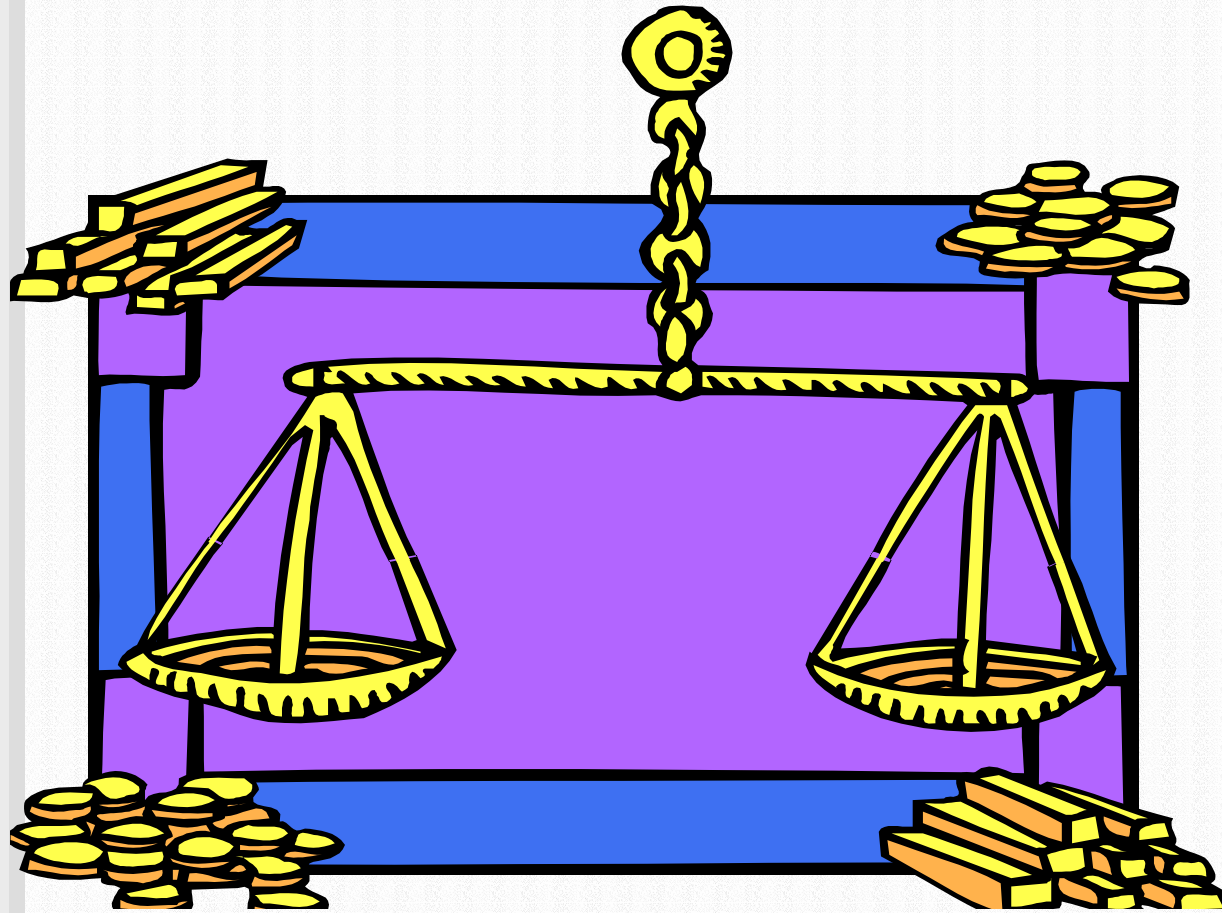
- Staff adequately
- Best/most experienced personnel
- Availability, quality, reliability
- Promote supplier/client collaboration and info sharing
- Thoroughly understand industry

- Manage as an investment, not expense
- Experienced personnel
- Promote linkage to client
- Monitor qualitative service standards closely

Criticality



# Metrics



Developing a system for establishing metrics, monitoring performance, and taking appropriate action is the **single most critical factor** to ensure a successful SRM program!

# Metrics

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- Broadly consider what should be measured
- Metrics were defined for the supplier and Allstate to measure:
  - Supplier Performance
  - Allstate Performance
  - Client Satisfaction
  - Client Compliance
  - Overall Relationship Health
  - “Right” Pricing
  - Governance
  - SRM Program Success

# Metrics

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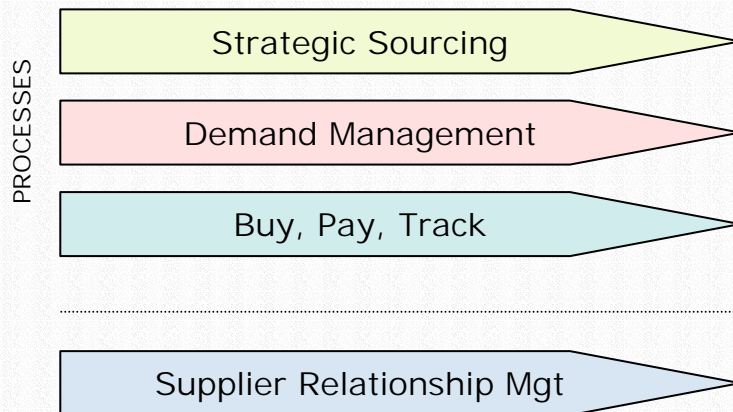
## Metrics Checklist:

- Metric well defined
- Establish standard of performance
- Measurement frequency
- Reporting frequency, and to whom
- Person/department responsible
- Actions/sanctions triggered if the standard is not met and time period for correction
- Source of the data
- Include metric in the SLA

# Applying the Tool Set

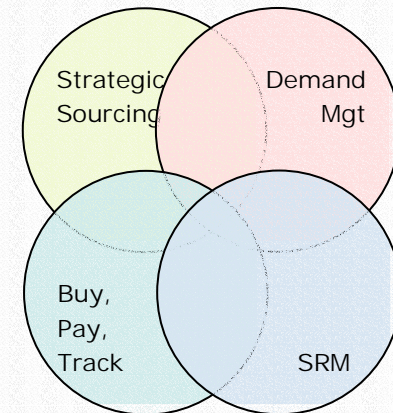
SRM is not a separate process. It is a set of competencies, tools and techniques that support the overall Procurement process

## How we used to think about SRM...



- Processes were viewed as linear and separate.
- A separate dedicated SRM team was envisioned.

## How we think today...



- All processes are interrelated.
- Our "Commodity Managers" bear primary responsibility. No separate COE to hand off to.



# Getting Started

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- Select the right firms
- Involve appropriate personnel
- Assess the relationship from your perspective
- Supplier assesses relationship independently
- Assessments form basis for initial conversations
- Focus on areas of agreement and disagreement
- Identify gaps
- Evaluate the leakage caused by these gaps
- Develop action plans to remedy the gaps
- Supplement existing metrics to evaluate progress
- Schedule periodic assessments

# Developing the Competency

## The Evolving Procurement Role

TRADITIONAL PROCUREMENT → → → → → → THE NEW PROFESSIONAL

Knowledgeable about procurement

Disconnected from business strategy

Less technology knowledge

Transactional  
Negotiation/T&C skills

One-dimensional supplier relationships

Short term benefits

Priorities driven by technical community



Multi-dimensional knowledge manager

Center of Expertise on business/markets

Understands evolution of technology

Acts as consultant

Holistic relationship management

Strong analytic/financial/cash management understanding

Complex deals

Influence/lead change

Source: British Telecom Group

# Enable the Organization

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- Identify new expectations and corresponding skills
- Communicate expectations repeatedly
- Retrain procurement employees
- Train employees outside of procurement organization
- Provide job aids
- Set the example
- Consider outside help to enable fast start
- Staff appropriately
- Make the tough decisions



# Early Results

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**Our pilot is already providing benefits for both the suppliers and Allstate:**

- Substantially improved communication channels
- Greater honesty in our conversations
- Increased understanding of the supplier's operations
- Clearer expectations of each party
- Deeper understanding of the contracts
- Jointly developed action plans
- Mutually agreed upon performance metrics
- Surfacing best practices
- Both parties focused on seeking value for both sides



# Conclusions

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- We must continue. To do otherwise promotes value leakage!
- Not ready to tackle the “non-traditional” relationships unless sponsored by client
- Commodity manager development is key
- An end to end metrics approach is mandatory
- We need to continue to evolve our models
- We need to build momentum

# Questions?

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# Thank-you!

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