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Supplier Relationship
Management (SRM)
Identifying and maximising
the value of strategic
supplier partnering

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Unlock value through SRM from partnering with strategic suppliers

Today's integrated supply chains need to move beyond traditional cost reduction tactics and explore alternative ways to systematically support the business. Therefore, executives are increasingly looking at re-defining their existing supplier relationships. Supplier Relationship Management (SRM) is one approach to connect the supply chain and their key suppliers with the strategic interests of an organisation, to successfully identify and drive untapped business opportunities.

Deloitte's Global CPO Survey 2014 found increasing levels of supplier collaboration and restructuring of existing relationships among the top procurement levels. While in some industries 77% of CPOs may be actively driving innovation with suppliers, the vast majority rates the effectiveness of their strategic supplier collaborations as poor or mixed.

In this article we examine the need to look beyond traditional supplier management, explore how relationships with key partners should be managed in a strategic and holistic manner, and provide high-level guidelines on how and where to get started with SRM.

Provide a clear framework and alignment to traditional supplier management

In traditional supplier relationships the interaction between a company and its suppliers can be described as driven by the operational needs of the different functions. As a result, relationships are in first place lacking transparency with respect to internal governance and ownership of the relationship.

From an external point of view then, suppliers don't see a clear cross-functional interface to interact with. As a consequence, they work less efficiently and take advantage of the situation to drive their own strategies.

34% of global CPOs plan to increase their levels of supplier collaboration in 2015.

This effect is further amplified by the organisations' growth and acquisition strategies, which may lead to a growing supply network, increasingly global operations and which raise the level of organisational complexity and risk. The ensuing myriad of internal and external stakeholders likely creates a vulnerable network with little global visibility.

A thorough SRM approach provides a clear framework with an internally and externally aligned governance, to manage relationships at all levels and within different functions, reduce the level of complexity and increase transparency on both sides.

Establish mutually beneficial relationships with key suppliers

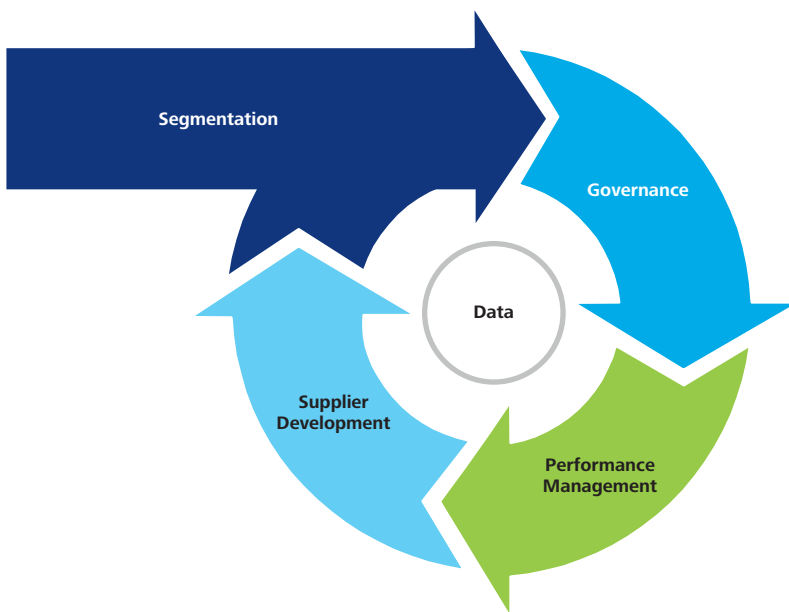
The main objective of Supplier Relationship Management (SRM) is to establish two-way, mutually beneficial relationships between an organisation and its suppliers. It consists of collaborative and relationship-building activities, only targeted at the most strategic and critical supply partners that deliver great added value to the firm (e.g. in terms of sustained competitive advantage or innovation). Thereby SRM activities are complementary to supplier performance and contract management activities which are targeted at the majority of suppliers.

We are observing a number of benefits that companies derive from successfully managing SRM:

- **Reduce costs** beyond traditional sourcing and category management efforts across the entire supply chain through a continuous optimisation of operations in a win-win partnership with suppliers.
- **Drive and monitor performance** of strategic suppliers in a transparent manner, maintaining focus on key measures that support business objectives.
- **Manage supply risk and compliance with responsible sourcing, ethics and regulatory requirements**, by strengthening global transparency and visibility of the relationship.
- **Foster business development and innovation** by jointly identifying and implementing opportunities that create long-term value for both organisations.

Create and monitor sustainable value with SRM processes

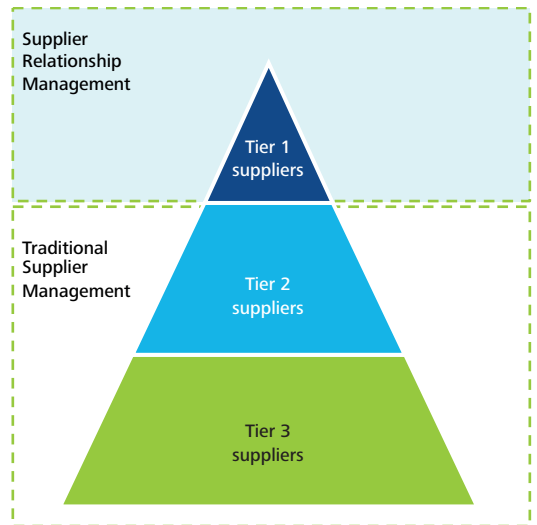
To enable an organisation to drive more value out of their supplier relationships, SRM is organised around a set of core complementary processes. These processes focus on supplier segmentation, SRM governance, supplier performance management, and supplier development.



Supplier segmentation

Supplier segmentation is the process of categorizing suppliers based on a defined set of criteria in order to identify the key (strategic) suppliers with which to engage in SRM. This selection process is important as not all suppliers require the same level of focus. Organisations should therefore concentrate their resources on a limited number of relevant strategic suppliers (tier 1).

These relationships are typically prioritized according to both spend and a set of business criticality criteria reflecting the strategic importance of the supplier to the organisation. The segmentation process is a prerequisite to set up effective SRM programs.

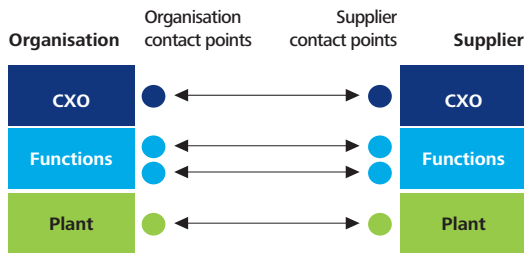


Effective SRM concentrates resources on a limited number of strategic suppliers.

SRM governance

Establishing effective governance is key to unlock SRM value. Fundamental steps are the alignment within the organisation, and the setup of internal governance processes together with clearly assigned ownerships of supplier relationships. The ownership of the relationship can be outside of the Procurement organisation, therefore it is essential to involve the right stakeholders from the business in the process. These stakeholders are part of a formal supplier governance committee for each tier 1 supplier. A governance committee for example can define and drive the strategic roadmap together with the supplier. Top-level strategic objectives with each tier 1 supplier are to be mutually agreed at the top level on both sides (in top-to-top meetings).

These objectives are essential in driving the setup of operational measures and metrics to be monitored as part of the performance management process.



Performance management

Performance management involves the setup and continuous tracking of operational measures which are mutually agreed with tier 1 suppliers through SRM governance. It focuses on the “critical few” measures, which are consolidated on a single supplier scorecard and relevant for the business. Subsequently it enables a global, shared view of supplier performance along a common set of defined metrics which should be cascaded down the organisation (local, regional, global levels). Metrics usually also include compliance with the organisation’s values and standards (e.g. financial stability, business continuity, responsible sourcing), as well as with laws and relevant industry regulations.

Once in place, the supplier scorecard needs to be continuously monitored and review meetings should be regularly held with strategic suppliers. Any deviation from agreed minimum performance requirements should be addressed immediately by identifying the root cause and putting in place corrective measures.



Supplier development

Once segmentation, governance and performance management are established processes, they represent a springboard to additional value creation activities that can be undertaken with strategic suppliers. Joint business development between an organisation and its tier 1 suppliers is an example of those additional activities that can be derived from SRM.

This would typically involve sharing of plans between the two entities and jointly defining initiatives that create long-term value for both organisations, such as:

- **Innovation agenda**, aligning supplier’s creative efforts to business needs and providing the right platform to enable appropriate feedback on innovation proposals.
- **New market penetration/product development**, leveraging strengths and knowledge of both organisations.
- **M&A and/or joint ventures** to gain or expand capabilities.

Only 39% of CPOs actively drive innovation initiatives with their suppliers.

Overcome challenges of establishing SRM

Despite the various benefits of SRM, establishing strategic collaboration with key suppliers can be highly challenging. In the normal course of events supplier relationships are exposed to stress and strain so that mutual expectations might not be met unless both parties are thoroughly committed to success. The following 5 key steps help organisations overcome these challenges in order to successfully build strategic relationships with their suppliers.

- 1. Select the right partners.** When segmenting the supplier base, look beyond strategic and financial fit and consider differences in corporate culture, operating model, and business practices as well. Additionally, think of what tomorrow's competitive advantage could be and which suppliers could support it.
- 2. Align internally and externally.** Achieve a clear alignment with business stakeholders across all levels, ensuring their commitment to SRM, as well as an understanding of requirements and existing initiatives within and outside the organisation. Shift your focus towards the extended supply chain, assessing and judging cause and effect not only for your own company, but across the entire network of strategic suppliers.
- 3. Establish mutually beneficial relationships.** When negotiating with your strategic suppliers, make sure that you negotiate a win-win deal for both parties, considering immediate actions as well as future engagements. Foster collaboration by training your employees in conflict management, problem solving, and networking skills.
- 4. Select meaningful KPIs and share information.** Select measures that are relevant to your supplier's and your own business based on your mutually defined strategic objectives and be specific on how those goals should be measured. Communicate openly and continuously and ensure information flows in both directions on a real-time basis.
- 5. Manage the change.** Recognize that entering any strategic supplier relationship will result in changes within each partner organisation and a clear communication plan must be designed to be sure all the relevant functions involved are made aware of the aims, scope and their role in the SRM.

Move from strategy to action

Once a company has overcome initial internal hurdles to establish their SRM vision there are two common, non-mutually exclusive ways to get started: starting internally by identifying and mobilizing key stakeholders, or conducting an external survey with key suppliers.

Identifying and mobilizing key stakeholders: typically these are individuals working on different topics with strategic suppliers, such as the Planning department, Purchasing or Quality Management. Existing communication matrices can be a good starting point to identify important internal stakeholders. Having identified and assessed all internal relationships, it is time to decide on a dedicated responsible to coordinate and manage all activities from a neutral, end-to-end perspective moving forward.

Conducting a survey among the main actors within the company's supply base can also be a great enhancer to the SRM strategy and support its deployment. Referred to as "Voice of the Supplier (VoS)" survey, it helps answer questions such as: What does the market think about us? What do suppliers identify as key strengths and opportunities in working with us? Repeated on an annual basis, the survey provides an excellent basis to measure the progress of SRM from the perspective of the supply base.

Case study: SRM enhancements at a Global Consumer Business Company

Deloitte was asked to support the client's SRM enhancement initiative which they started internally. Based on an initial gap assessment, Deloitte followed a combined approach of both mobilizing internal stakeholders and conducting an external Voice of the Supplier (VoS) survey.

Together with a core team from the client, Deloitte developed a framework for the client's SRM approach including the following:

- Agreement on SRM strategy.
- Definition of supplier segmentation process and tools.
- Establishment of a governance model and definition of roles and responsibilities, for both internally and externally.
- Improvements and guidance to the performance management process and measures.
- Supplier development processes and responsibilities including measures for underperforming suppliers, business development initiatives and management of innovation opportunities.
- Deployment of SRM within the organisation and implementation planning.

In addition, Deloitte developed a VoS survey questionnaire and supported the client in the selection of survey participants. Deloitte ran the survey on behalf of the client and provided analytics and a survey report, supporting the web-based survey results with phone-interviews with selected suppliers.

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