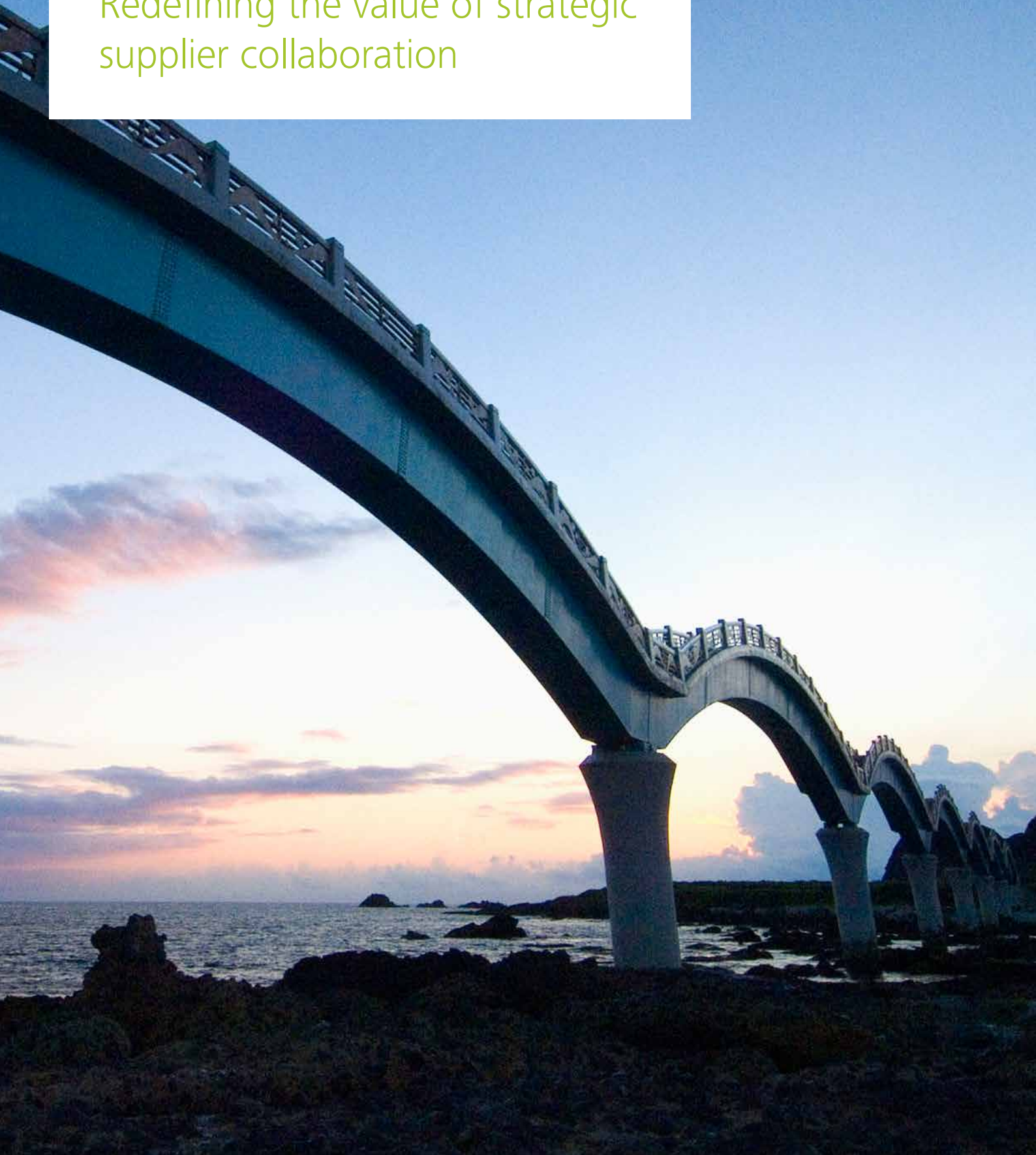


Deloitte.

Supplier Relationship
Management (SRM)

Redefining the value of strategic
supplier collaboration



As today's integrated supply chains require collaboration at many levels and from various functions, executives are increasingly looking for innovative ways to leverage existing and new supplier relationships for their expansionary pursuit. Supplier Relationship Management (SRM) is one approach to connect the different interests both within the organization and with the extended supply chain. SRM identifies and engages the right stakeholders to create ownership of the relationship, drive effective communication and align strategic objectives. The result is a foundation for continuous efficiency improvements, such as cost reductions, risk mitigation or improved go-to-market times just as well as improved potential for disruptive innovation.

strategies, which may lead to a growing supply network, increasingly global operations and raises the level of organizational complexity and risk. The ensuing myriad of internal and external stakeholders likely creates a vulnerable network with little global visibility.

Applying a thorough SRM approach successful relationships arise from companywide commitments combined with a clearly defined process. Strategic supplier relationships comprise multiple, yet controlled points of interaction between various representatives of the organization and its key suppliers. The alignment of supplier relationships across the organization requires a clear governance structure, both within the organisation and towards their strategic suppliers, standardized performance measurements and corporate supplier strategies. A clear framework to manage supplier relationships at different levels and in different functions reduces the level of complexity and increases transparency internally as well as externally.

Executives are acutely becoming aware of these drivers; future-proofing business through sustainable collaboration with suppliers becomes imperative.

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

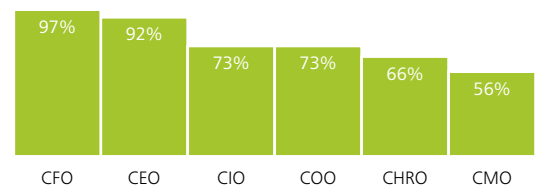
Deloitte's Global CPO Survey 2014 found increasing levels of supplier collaboration and restructuring of existing relationships among the top procurement levels. While in some industries 77% of CPOs may be actively driving innovation with suppliers, the vast majority rates the effectiveness of their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

In this article we examine the need to look beyond traditional Procurement-centric perspectives on 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.

Traditional perspectives on supplier management are lacking a clear framework and alignment

Many organizations struggle to manage their supplier relationships systematically. The main reason behind this is their lack of a clear framework with aligned guidelines on supplier management. In traditional supplier relationships the interaction between different functions of a company and its suppliers can be described as tactical and operational. As a result relationships are lacking transparency not only from an external perspective, but also with respect to internal governance and ownership of relationships. This effect is further amplified by the organizations' growth and acquisition

Importance of business partnering with other members of the C-suite from the CPO perspective



Source: The Deloitte Global CPO Survey 2014

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 organization and its suppliers. It consists of collaborative and relationship-building activities 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 additional and complementary to supplier performance and contract management activities which are targeted at the majority of suppliers.

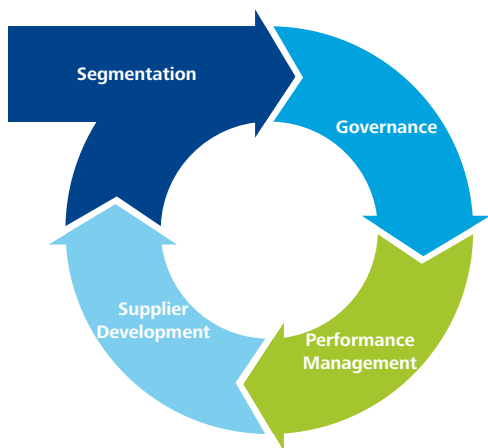
We are seeing a number of benefits that companies derive from successfully managing SRM:

- Reduce costs and increase efficiency beyond traditional sourcing and category management efforts by setting up long-term relationships and establish communication processes
- Manage supplier risk and compliance by strengthening global transparency and visibility on key relationships through policies and processes, metrics and tools
- Drive supplier performance in a transparent and sustainable manner with strategic suppliers and collaboration partners
- Enable continuous improvement of operations through long-term relationships with suppliers, allowing for the creation of a more effective and efficient supply chain
- Foster business development and innovation by jointly identifying and implementing innovation and new market opportunities, sharing vision and strategy through joint planning early on to improve go-to-market time

Create sustainable value with SRM processes

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

Continuous cycle of Supplier Relationship Management activities

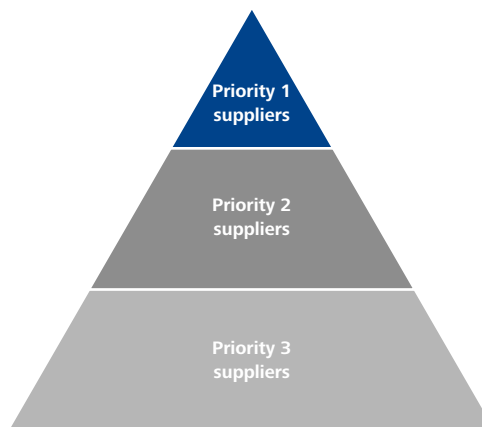


Source: Deloitte Consulting

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. Organizations should therefore concentrate their resource allocation and spend their time and efforts on a limited number of relevant strategic suppliers (priority 1).

Segmented supplier base and prioritized focus group



Source: Deloitte Consulting

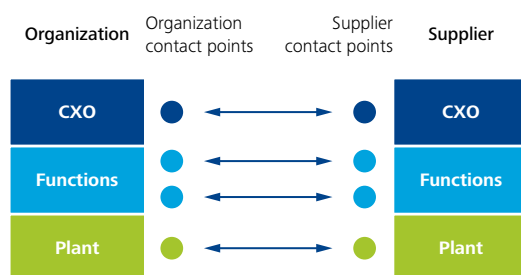
The criteria along which these relationships are prioritized are typically spend and business criticality. They need to reflect the strategic importance of the supplier to the organization. The segmentation process is a prerequisite to set up effective governance with strategic suppliers.

SRM governance

Establishing effective governance is key to unlocking SRM value, especially for priority 1 suppliers. A prerequisite to this is the alignment within the organization, the setup of internal governance processes and clearly assigned ownerships of supplier relationships. The ownership of the relationship can be outside of the Procurement organization, 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 priority 1 supplier. A governance committee for example can define and drive the strategic roadmap together with the supplier. Top-level strategic objectives with each priority 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.

Involved stakeholder interaction across organizational hierarchies



Source: Deloitte Consulting

Performance management

Performance management is a prerequisite for effective SRM. It involves the setup and continuous tracking of operational measures which are mutually agreed with priority 1 suppliers. It focuses on the “critical few” measures, which are consolidated on a single supplier scorecard. Subsequently it enables a global, shared view of supplier performance along a common set of defined metrics which should be cascaded down the organization (local, regional, global levels).

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

Segmentation, governance and performance management are cornerstone components of SRM. Once in place they represent a springboard to additional value creation activities that can be undertaken with strategic suppliers. Joint business development between an organization and its priority 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 defining long-term initiatives, such as market penetration, mergers, acquisitions and joint ventures, or strategic alliances.

Supplier innovation management provides the right innovation platform as well as guidelines to ensure appropriate feedback and follow-up on innovation proposals from suppliers.

Ensure conformance with supplier audits to manage supply risks

Many companies are exposed to reputational and regulatory risks through their complex supply chains. Especially with strategic suppliers in scope of SRM supplier audits are a key activity allowing for identification of non-conformances with an organization’s values, standards, laws and regulations in the following categories:

Financial stability and business continuity

Conformance with financial requirements, liquidity and debt ratios; ability to manage crisis and ensure supply continuity;

Compliance to legal, quality and value

Compliance with sustainability, safety and labour standards and conformance with applicable laws and regulations;

Traceability of products and services

Conformance with declaration guidelines and tracking requirements throughout the supply chain

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 organizations to 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, as well as an understanding of requirements and existing initiatives within and outside the organization. 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. Commit to change

Recognize that entering any strategic supplier relationship will result in changes within each partner organization and that mutual commitment to ongoing, incremental change is required.

Move from Strategy to Action

Once a company has overcome initial internal hurdles to realize 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.

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

Case study: SRM enhancements at 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 organization and implementation planning

In addition, Deloitte developed a VoS survey questionnaire and supported the client in the selection of survey participants. Deloitte run 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.

Your contacts

For more information

Dr. Philipp Zimmermann

Director

Tel: +49 (0)151 5800 4813

pzimmermann@deloitte.de

J. Henning Buchholz

Senior Consultant

Tel: +49 (0)151 5800 4197

hbuchholz@deloitte.de

Marc Rajal

Senior Manager

Tel: +41 (0)79 687 04 84

marajal@deloitte.ch

Pierre-Louis de Plinval

Consultant

Tel: +41 (0)79 248 76 78

pdeplival@deloitte.ch

Miriam Geissmann

Analyst

Tel: +41 (0)76 533 81 92

mgeissmann@deloitte.ch

For more information please visit our website at www.deloitte.com/de

Deloitte Consulting GmbH ("Deloitte") as the responsible entity with respect to the German Data Protection Act and, to the extent legally permitted, its affiliated companies and its legal practice (Deloitte Legal Rechtsanwaltsgesellschaft mbH) use your data for individual contractual relationships as well as for own marketing purposes. You may object to the use of your data for marketing purposes at any time by sending a notice to Deloitte, Business Development, Kurfürstendamm 23, 10719 Berlin or kontakt@deloitte.de. This will incur no additional costs beyond the usual tariffs.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/de/UeberUns for a more detailed description of DTTL and its member firms.

Deloitte provides audit, tax, consulting and financial advisory services to public and private clients spanning multiple industries; legal advisory services in Germany are provided by Deloitte Legal. With a globally connected network of member firms in more than 150 countries and territories, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte's more than 210,000 professionals are committed to making an impact that matters.

This communication contains general information only not suitable for addressing the particular circumstances of any individual case and is not intended to be used as a basis for commercial decisions or decisions of any other kind. None of Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft or Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte network") is, by means of this communication, rendering professional advice or services. No entity in the Deloitte network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

© 2015 Deloitte Consulting GmbH

Issued 06/2015

