Supplier Relationship Management

Are your post-contract value aspirations high enough?

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in association with Due North
The origins and emergence of SRM as a discrete discipline

In the last ten years the emergence of supplier relationship management (SRM) has seen significant development within the procurement profession. SRM has been presented as the ‘new way’ for organisations to capture more value and improve performance from the supply chain. Indeed, for many organisations, it has been a step into the ‘new’ (or unknown territory), but for others, SRM is the development of a well-worn approach to securing the continuous improvement of performance and value – a process recognised as the never-ending pursuit of optimum value for money.

This approach to ‘supplier development’ was pioneered by the automotive industry and its application is one of the key reasons why our motor cars are, in real terms, better value for money than they have ever been. Of course, in an industry where 80% of companies’ revenues are spent in acquiring component parts from the upstream supply chain, this approach to purposefully managing supply chain value makes perfect sense, as success here may well become a source of the company's competitive advantage. Research undertaken has routinely confirmed that the likes of Honda, Toyota and Nissan have benefited from their recognised superior procurement and supply chain management; the same situation is evident for SRM although the traditional Western headquartered players in this market have made great strides in catching-up in recent years.

In the 1990s the practices of the auto industry began to be documented by researchers such as Womack & Jones, Lamming, and Hines. The latter reported:-

“Competitive advantage is increasingly a function of supply chain efficiency and effectiveness.... the greater the collaboration, the greater the likelihood that an advantage can be gained.” (1)

Other sectors soon followed a similar path, notably the aerospace and manufacturing sectors, both seeing a dramatically-increasing percentage of their revenues ‘bought-out’. Of course professional procurement had long been a mainstream activity in these organisations, but the focus had been on embedding strategic sourcing and category management processes rather than what happened after the contract had been signed. However, organisations following the auto sector’s just-in-time methods, reduced cash tied up in inventories while adopting more efficient risk management practices. This meant that supply chain delivery and quality failure became priorities and supplier development methods became established. In my own time at aero-engine manufacturer, Rolls Royce, the practice of supplier development was becoming well established by the late-'90s.

Since then SRM has become de rigueur, an increasingly mainstream activity for organisations in financial services, pharmaceuticals, and the public sector. The notion that we can work collaboratively with suppliers to achieve better returns is now so widely accepted that most large organisations have in place one sort of SRM programme or another. However, SRM proponents can’t say it has truly arrived just yet. There remains uncertainty and disagreement about what supplier relationship management is and what it means to practice it. Where category management approaches have matured and coalesced around common principles and standard ‘tools’, SRM is still in the early-majority phase, with no consensus as yet to its scope and methods. There may be less of an argument these days over the notion of supplier management but, there is also less agreement around the means of doing it.

What exactly is SRM...?

Supplier Relationship Management – a definition

To address this apparent failure to agree what SRM really means, I will offer the following definition:-

Supplier Relationship Management (SRM) is the deliberate pursuit and systematic management of post-contract value, attainable from an organisation's suppliers.

There are two key elements to this definition. Firstly, that SRM is a deliberate, systematic process. It is more than a set of principles around ‘collaboration is good/adversarial relationships are bad’. SRM can be seen as a series of familiar or easy-to-learn tools, practically applied in an extremely focused way. SRM pioneers have been applying their version of the toolkit and process in a systematic and diligent fashion for years, albeit under the guise of 'supplier development'.

Where does Contract Management end and Supplier Relationship Management begin?

Contract Management
Award Contract  KPI Monitoring  SPM  SRM
The second key element is that, in practicing SRM, we are largely concerned about what happens post-contract. For too long, organisations have been content to position SRM as the final step in their category management process and have failed to do it justice. Category projects are launched and completed by category leads and their teams, who quickly move on from one spend category to another, leaving many attainable savings hanging fruit-like, unpicked, from the tree. Many organisations have implemented contract management solutions and undoubtedly this is a positive move, but the scope and sense of purpose around contract management is all too often risk-focused – making sure databases are up to date, the scheduling of contract renewal dates and providing an audit trail. Indeed, users of Customer Relationship Management (CRM) solutions (ahead of contract management in system maturity terms) report similar limitations in scope and the full potential utilisation of system capability.

'It is my contention that contract management falls short of delivering the optimum value for money for our organisations and begs the question: Is this what we really envisaged when we agreed on the principle of supplier collaboration and relationship development?'

Urgency: the need to accelerate our SRM efforts

It is worth, at this point, to reflect on why supplier management or SRM has become increasingly important for a wide range of organisations. A recent survey from Proxima (under the banner ‘Corporate Virtualisation’ (2)) found that typically 69% of company revenues are spent with the supply chain, as compared to around 12.5% on internal staff costs. Third party spend continues to grow, despite warnings that outsourcing core activities is risking the ‘hollowing-out’ of our institutions. Regardless, this degree of sourcing and outsourcing clearly demands, at the very least, professional oversight of external relationships.

Moreover, in an economy where global competition demands organisations provide their customers and clients ever more for less, then SRM in its management of continuous performance and value improvement from suppliers has the potential to emerge as one of the decreasing number of genuine core competencies our organisations must retain and nurture.

Moving from the philosophical to the practical, organisations are knee-deep in the challenge of supplier management right now. Recent (and not so recent) cases have demonstrated the propensity for organisations to take their eye off the ball as they under-invest in the task of managing external suppliers. Betraying a tendency to focus on the internal (controllable) rather than the external (less controllable), leaders have too often left the management of supplier performance to beleaguered procurement departments focused on sourcing or other functional areas (Human Resources, Marketing, Operations, etc.) that have neither the bandwidth nor the expertise required to effectively manage suppliers. Consequently we witness the horse meat scandal, the Boeing Dreamliner cost overruns and technical failures and the London 2012 Olympics security fiasco; examples not only of the leakage of value but the damage to corporate and professional reputations.

The Upside: the additional value from SRM

When organisations get it right, placing SRM at the heart of their business effort, they find that SRM can make a significant contribution to procurement’s success and deliver tangible returns that more than justify the investment, but it’s not easy to extrapolate the success of some and apply it to the many. It has proven hard to be precise as to the amount of additional benefits an organisation can expect to get from its deployment of SRM, but we have seen some useful attempts at estimating what benefits could be achieved. In pure savings terms, one survey estimated that leaders can secure 3% savings as compared to ‘all respondents’ who only achieve 1% from procurement activities more generally. Another (3) suggested savings of between two and six percent, whereas when the definition of value is broadened (and yet still quantified) additional benefits can equate to 23% of additional value (4). Finally, a 2009 survey (5) suggested that up to 46% of the potential value is being ‘left on the table’ through inadequate application of SRM.

This variability in the estimated additional value that can be achieved from SRM, fuels uncertainty over the return on investment (ROI), leaving executives hesitant or reluctant to sanction investment in technology, know-how, staff resources and training. And yet at a time when category management processes and practice are reaching maturity, SRM with its ability to provide large savings, superior performance and the harnessing of supplier innovation, possibly remains the most potent source of the next wave of competitive advantage.

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Harvesting SRM value: making it happen

By now, you will hopefully have a clearer idea about what SRM is, the potential value it can deliver, and why organisations need to raise their game with a high degree of focus and urgency. Now we will consider how the best organisations go about it and the critical dependencies between the various activities.

Whenever organisations discuss SRM they mostly start with a description of the type of engagement they wish to have with their suppliers, usually in terms of collaboration and partnership. Few describe the steps leading up to supplier engagement or the necessary activities required if the engagement is to be consistent, sustained and yield tangible results. Many leap straight into supplier engagement following a set of principles based on collaboration, but without a robust framework, I would describe this as a ‘hope for the best strategy’. To be truly successful, organisations would be well-advised to deploy a systematic process culminating in an agreed and documented relationship strategy before ratcheting-up their supplier engagement.

Figure 1: The Four Pillars SRM Framework

There is a cause and effect theme running through this SRM framework, with a series of critical dependencies between the steps.

The target of the framework is to achieve supplier engagement; after completing the closely related relationship analysis and strategy steps, the typical relationship strategy clearly represents the key points identified in the relationship analysis. The strategy stage is where the details of value improvement opportunities are defined in a project plan, resources assigned to strategy implementation/supplier engagement, cost/benefit analysis, risk assessment and governance framework. Leaders will find that they are then able to secure organisational alignment around a coherent strategy, as the organisation has a deep and shared understanding of the relationship and its business context.

Relationship analysis encompasses: category strategy; supply market analysis; supplier account management and customer profiling; relationship perception; dependency analysis; supplier corporate strategy; performance review (and potentially other tools). These are all designed to illustrate the areas of potential improvement and current impediments to optimising the value from the relationship.

But who is to carry-out the relationship analysis? One option is to leave it to the procurement category manager who will take advice from a range of stakeholders, an approach many organisations evidently take. However, the most experienced practitioners consider SRM as a cross-functional endeavour with SRM being intensively deployed with the organisation’s most critical and strategic suppliers, then it is logical that this important task is not left in the hands of a single procurement specialist. The cross-functional SRM team is dependent on input from a wider range of stakeholders who will place their business requirements with the team, leaving the latter to prioritise, reconcile and agree a set of business aims and objectives relevant to the specific supplier relationship under scrutiny. Outstanding influencing skills are required of the SRM team in its stakeholder engagement, as it will be taking input and then feeding back to decision-critical senior and middle management stakeholders.

‘experienced practitioners consider SRM as a cross-functional endeavour’

The four steps just described are applied to specific supplier relationships and can best be undertaken when supported by a series of enablers, each of which have interdependencies of a similar kind. For the relationship analysis and strategy steps to be carried-out, the organisation requires SRM technology in the form of process, tools and templates.
Performance dashboards, supplier risk matrices, contract databases are all part of the landscape, alongside the strategic analysis tools mentioned above that are used for relationship analysis.

Supply Base Segmentation is a crucial step in determining which suppliers warrant the investment in more intensive SRM. Most organisations deploy a segmentation method, classifying suppliers into typically three or four levels of importance. Given that all organisations operate under capacity constraints, choices have to be made, and so the roll-out of the SRM programme follows the wave plan approach adopted in category management, targeting the suppliers most critical to the business, with due consideration of their value-generating potential.

Like all significant change programmes, SRM requires the visible sponsorship from a senior executive who will provide support in securing resources, removing roadblocks and endorsing agreed ways of working. Finally, this senior executive sponsor should take a leading role in developing and agreeing aspirational targets for incremental value that the current understanding of the relationship allows. Goals and aspirations will be honed later in the process and a rigorous capturing of the value benefits will maintain the integrity of the whole SRM programme, whilst providing learning and inspiration to teams responsible for other key supplier relationships.

What this SRM Framework illustrates is that excellence in supplier management is not simply a function of relationship values and collaborative working principles provided by edict from the top. These principles may set the tone and so have their place in supplier engagement, but success is crucially-dependent on the preparatory work that goes in upstream of that purposeful engagement. Laying down a value improvement challenge to your and the supplier’s organisation has to be built on a clear and unambiguous strategy, underpinned by reliable strategic analysis and supported by accurate facts and data. In the absence of such a robust and rigorous approach, genuine value improvement will remain clouded by uncertainty and ROI estimates insufficiently reliable for the Boardroom to sanction the investment.

**Supplier engagement**

Now on the basis of a clear relationship strategy that our organisation is aligned behind we can return to supplier engagement. The crucial question is how will we harvest the potential value from the relationship in practical terms: what will we actually do?

In my view there are three generic approaches to optimising value from key supplier relationships; these are ‘Value Protection’, ‘Value Development’ and ‘Value Transformation’ and, importantly there is an interrelationship between all three.

![Figure 2: Supplier engagement and value optimisation](image)

**Engagement level #1 ‘Value Protection’** is where most organisations are operating at the present time. They may not present their SRM programme as focusing on protecting value, but this is indeed what they are doing, and it is perfectly rational and sensible. Value protection is essentially about an organisation managing its supply base to ensure it gets what it contracts for. The priority is on managing performance to the value parameters developed at the time of contracting, the Key Performance Indicators (KPIs) and requirements that were included in the service level agreement (SLA). This focus is crucially important in that anything less than exemplary performance results in value leakage – it costs the buying organisation in tangible (late delivery or poor quality requiring management intervention, additional headcount, safety stock, excessive risk management etc) and less tangible ways (loss of confidence, reputational damage, poor customer satisfaction etc).

Technology can help here with the application of risk and contract management solutions along with performance dashboards and supplier portals. All enable facts and data to be at the heart of value protection. Diligent use of these tools is a pre-requisite and leaders have a key role in ensuring that take-up and compliance levels reach the critical mass necessary to assure widespread confidence of the efficacy of these solutions.
Of course, well-executed and systematic contract and performance management will minimise such value leakage and this is self-evident to most practitioners, and yet, most organisations tolerate the performance shortcomings of suppliers, employing expeditors, quality assurance staff, and others who intervene daily to ensure the show stays on the road. Moreover, weak governance abounds – incomplete and disputed performance metrics, contract SLAs barely referred to after they are put in place, overlooked, infrequent and casual performance reviews all illustrate the failure of organisations to match the value protection outcomes they are looking for with their capacity for the governance required to minimise it.

‘Possibly the least sophisticated approach to SRM, value protection is also the easiest to put in place and, perhaps, represents the biggest prize in supplier management.’

**Engagement level #2** ‘Value Development’ is where continuous value improvement comes to the fore – the going beyond what was initially contracted for, and making a reality of those all too often tick-box provisions placed in SLAs for continuous improvement, which are neglected as the participants become too busy managing operational issues. In value development we see the deployment of systems and process improvement techniques found in the lean toolkit, six sigma, value analysis; all designed to provide an ongoing stream of incremental value improvements. As discussed at the beginning of this paper, such approaches are formally established in prime manufacturing sectors such as automotive and aerospace and are increasingly being applied in the service and public sectors. However, a word of warning: given that additional value created in this ‘development’ phase of engagement can be undone by value leakage in the ‘protection’ phase, it stands to reason that value protection must remain the highest priority amongst organisations’ SRM efforts, with any over-enthusiastic desire to apply the ‘clever stuff’ tempered by leaders’ focus on what some may disparagingly call ‘the basics’.

**Engagement level #3** ‘Value Transformation’ is unlikely to be the priority of many organisations, nevertheless its application shows the promise of truly intensive value transforming engagement. This is the realm of strategic alliances, joint ventures, strategic outsourcing, joint innovation and product development, typically led from the boardroom. This tends to be the seductive end of the range of SRM activities, with its language of executive-led partnering, collaboration and high trust and many SRM programmes over-promise and under-deliver in this intensely challenging territory. Taking a process view of harvesting value, ‘value protection’ and ‘value development’ are as much a part of these strategic supplier relationships as they are with other, less important suppliers, so diligence needs to sit alongside mutual respect, shared values and inspiring leadership.

**The critical challenges: next steps for solution providers and leadership**

So, given the incremental nature of value capture (from value protection to value transformation), let us address a number of challenges that remain for those aspiring to SRM greatness.

**Firstly, technology solution providers and what is available to the SRM practitioner?** There is no doubt that the provision of technology for the pre-contract sourcing phase of procurement is entering product life cycle maturity, with strong take-up of eRFx, eTendering and eAuction solutions, all of which have proven functionality and audit trail capability.

In the post-contract SRM phase there is a less comprehensive picture emerging. Contract management solutions are out in front, as organisations continue to prioritise risk and to some extent, the ‘value protection’ discussed in this paper. Supplier portals have emerged as a vehicle for data sharing and closer integration with suppliers, but take-up is more patchy and in the early-adopter phase. These solutions undoubtedly make a contribution to helping embed more robust supplier management practices and help foster improving supplier relations for those actively involved, but it still feels like early days.

The evolution of customer relationship management (CRM) platforms may provide a blueprint for SRM and its solution providers. An increasingly essential component of an organisation’s sales operations, there remains serious CRM adoption and compliance issues amongst supposed users and with platform functionality ahead of users appetite, the full value of these systems may not ever be realised.

There is, however, a significant opportunity for solution providers to help resolve one of the biggest challenges facing the procurement profession in the 21st Century. With strategic sourcing and category management methodologies so well established in those large organisations where procurement features strongly, practitioners have repeatedly demonstrated the ability to deliver price and cost savings. As discussed in this paper, leading organisations have ventured into post-contract territory and have sought to emulate the ‘value development’ activities of the manufacturing procurement pioneers, but for the procurement profession the road is narrowing. Cost savings from sourcing are getting harder to come by, and the jury is still out regarding the ROI on SRM programmes. In my view the breakthrough will come when procurement is able to operationalise the total cost of ownership (TCO) measure. Of course, and to varying degrees, TCO calculations can be made at the point of contracting (usually based on volume estimates), but...
organisations have no easy way of tracking value real-time/at the moment of consumption; it's all too difficult. The result is that CFOs continue to rely on measuring the effectiveness of the organisation's procurement function primarily on its ability to deliver savings.

Many procurement professionals, with career ambitions to be in the Boardroom, are frustrated at the lack of credit they get from their efforts in mitigating supply chain risk, for simplifying specifications, improving quality and delivery performance from the supplier, capturing innovations, streamlining processes etc. All of which contribute to the total value an organisation's suppliers can provide. My challenge to the solutions industry is to help procurement develop a near-standardised measurement system, able to aggregate value on a real-time/point of consumption basis. To enable organisations to operate a real-time value-based scorecard that passes the ‘CFO test’ of legitimacy. I believe this would liberate the procurement profession to do what it has so often known to be the right thing, and that is focus on value and not just cost. This solution would similarly transform supplier relationships and make a reality to the many, that which only the few automotive pioneers have been able to establish; true collaborative working.

Given that the solution just described is unlikely to emerge imminently, then the second challenge is to our organisations' leadership. That is to broaden their horizons and see SRM as something more than contract or, at best, supplier performance management. To invest seriously in technology, process, people and skills to make the deliberate pursuit of post-contract value a reality. And raise the bar; today. Despite shortcomings in current SRM practice and weaknesses in technology and process; set incremental targets for post-contract value and believe SRM can bring real competitive advantage to our organisations.

**Final words....**

This paper has outlined the scope of modern-day supplier management; and in doing so has hopefully provided insight into the scale of value that can be achieved and how a systematic, purposeful approach to SRM can make a significant difference to an organisation's success.

It is now up to leaders to take what is a proven concept, to invest in talent, process and technology. There are many examples of good SRM practice from a growing list of business sectors and SRM is becoming established as a mainstream part of more and more organisations. Learn from them. Don't wait for all the pieces to fall neatly into place. For more than a few leaders, who rightly envisage setbacks and roadblocks, SRM may be an uncertain endeavour, but there is a prize to be had. It's time for action!

**References**

Biography:
David is a business-owning management consultant, trainer, lecturer and coach in the areas of procurement, supplier relationship management (SRM), key account management (KAM), negotiation skills development, transformation and performance management.

An inspirational leader with deep knowledge and practitioner experience of the whole suite of procurement strategies, tools and techniques gained over 17 years in consumer goods, automotive and aerospace & defence. A Fellow of the Chartered Institute of Purchasing & Supply (FCIPS), also serving as a non-exec Board member for 3 years to 2005. Previously judge on CIPS Awards panel in 2005. Member of the Chartered Institute of Marketing. David also leads the UK Advisory Board of the Strategic Account Management Association (SAMA).

David gained an MBA in Strategy and Procurement Management (with Distinction) from the University of Birmingham (since 2009 he is visiting lecturer to the same programme), he also lectures in SRM and negotiation on the university's MSC for NHS Management.

Experience:
Highly successful procurement career, beginning as a buyer with Black & Decker (1984-89), purchasing products and components from global supply base. Joined Lucas Aerospace as Purchasing Manager, going on to take on increasingly senior procurement roles within the Lucas Group over six years to 1995. Gained automotive sector experience as Purchasing Manager of Automotive Products plc (1995-1998) and finally returning to aerospace with engine-maker Rolls Royce as Procurement Director managing at team of 120, and an annual spend of c. £200m, between 1998 and 2002.

Director of Four Pillars Consulting Limited:
Since 2002 has operated as consultant, trainer and lecturer to blue chip and public sector clients; bringing knowledge, experience and versatility to pharmaceuticals, financial services, government procurement, mail, logistics, manufacturing, aerospace, rail, facilities management, and university sectors.

Regular conference speaker, including SAMA Pan-European and USA conferences, and Procurecon.

Education:
- Cranfield University, School of Management - Key Account Management Programme (2005)

“David was instrumental in helping us retain and win ££millions. His knowledge of procurement and supplier / customer relationships is second to none. He has ‘been there and done that’ and has the ability to translate that experience into workshops and consultancy that really resonate with commercial directors and sales practitioners, helping them overcome barriers and achieve better results. In the work he did for us he enabled the account teams to go to new places with their customers, improving negotiation plans and relationships. He is tenacious, commercially astute and has a hard determined edge with a real desire to see the client achieve better results.”

- Robin Mar, Head of Business Development, Royal Mail

“I believe David is one of the most forward thinkers in procurement in the UK at the present time. He has considerable experience in application and delivery of practical procurement solutions to difficult work place situations.”

- Ian Palfreman, Head of Procurement, Vaultex UK

“David’s expertise in the area of procurement has really helped us to drive important improvements in the way we manage our international key accounts. Moreover, his no-nonsense & direct approach makes the sessions dynamic and refreshing.”

- Jeroen Curvers, Director – Marketing & Business Systems, Compass Group