

## Supply Chain News: What are the Keys to Supplier Relationship Management Success?

### Many Companies have Embraced SRM, but Not All Achieve Potential Benefits; Six Practices from SRM Leaders

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Supplier Relationship Management (SRM), a term first popularized in the late 1990s, refers both to an overall approach to procurement similar to Strategic Supplier Management and to a category of supply chain software that supports a more comprehensive approach to supplier management.

In either case, the results from SRM in general are viewed as decidedly mixed, with many companies embracing SRM strategies and technologies, but real results from those initiatives not crystal clear.

What are the keys for companies that are having success with SRM strategies?

**Mark Webb** and **Jonathan Hughes**, consultants at Future Purchasing and Vantage Partners respectively, tackled that subject in a recent article in Europe's CPO Agenda magazine. They have identified a number of keys to success based on one-on-one interviews with SRM leaders (22 companies in total).

"In all companies, it was clear that individual and organizational attitudes and behaviors were perceived to be of equal importance to tools and mechanisms [with respect to SRM success]," Webb and Hughes write. "However, tools were seen as a valuable means to improve the quality of interactions between the buying and selling organizations and a number were consistently identified as key for unlocking supplier value."

The six keys Webb and Hughes found for SRM success are as follows:

- **Supplier Segmentation:** The most common

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SRM strategy is to segment supplies and identify a subset of those as "strategic." The most frequently used segmentation criteria, according to Webb and Hughes, are spend (historic, forecast or both), value opportunities, dependency, risk and business impact, account attractiveness and relationship complexity.

- **Relationship Governance:** For SRM success, it is critical that companies clarify and document roles, responsibilities and interfaces on both sides of the relationship. "The most common approach is for category managers to take responsibility for the commercial management of a number of the key suppliers within their category portfolio, with operational management undertaken by business stakeholders," Webb and Hughes say.
- **Performance Scorecards:** Performance Scorecards are viewed as the most important tool for SRM success. The benefits can go beyond monitoring performance to serving as a platform for identifying improvement opportunities and measuring progress in implementing opportunities. While most scorecards are based

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on quantitative data from ERP and supply chain systems, most study participants supplemented these measures with qualitative relationship criteria.

- **Structured Review Meetings:** "Leading organizations have created a tiered range of meetings that are consistent and linked where needed," Webb and Hughes say. That includes strategic reviews involving executives, technical subject matter experts and relationship leaders from both sides, meetings which are generally held annually or semi-annually. This information sharing is used to identify risks and opportunities and to evaluate improvement initiatives under way, operational performance, key risks and formal after-action reviews of significant initiatives or events. More tactically focused "operational reviews" using relationship leaders and day-to-day managers are held quarterly or monthly.
- **Supply Chain Analysis and Process Re-engineering:** The improvements and opportunities identified through scorecards and review meetings often result in structural analysis and challenge of existing supply chains and processes. The fundamental redesign of cost drivers has repeatedly unlocked savings in the range of 10-30 per cent for leading organizations, Webb and Hughes say. These savings cannot be unlocked through traditional sourcing approaches, SRM leaders say, because a level of trust and understanding is required before suppliers and internal stakeholders are willing to



commit the necessary resources.

- **Relationship Strategy:** SRM leaders develop one, three or five-year relationship strategies to formalizing and agree on the approach to managing key suppliers. They were viewed as particularly important for suppliers that cross country, category or business unit boundaries. However, a lack of human bandwidth often prevents creation of those plans for others.

The bottom line benefits can be substantial, Webb and Hughes say.

"At the level of individual relationships, study participants regularly identified the achievement of cost-down savings of 10-30%," the two say.. "This was frequently through collaborative supply chain analysis, process re-engineering, changing specifications or redesigning the supplier's remuneration model."