

Crowd Pleaser

Everybody knows about supplier relationship management - don't they?
Rebecca Ellinor reports on moves likely to make it a bigger challenge for buyers

The importance of supplier relationship management is nothing new. But the theory is undergoing somewhat of a change. For many speakers at the Procurecon conference in Brussels last month a reflection of these shifts put the issue centre stage.

According to Jürgen Nelis, head of direct and indirect materials operations at pharmaceutical firm Roche, everybody is already doing it (whether they know it or not). "It's something you do every day with varying degrees of success."

As everybody knows, good SRM can lead to cheaper prices, faster time to market, more flexibility and innovation. But what is changing is that as businesses rationalise their supply base those vendors left standing are becoming more powerful. And if the relationships with these fewer, stronger suppliers are not managed properly they could present a risk to the business.

Why we do it

"Most competitors are roughly equal so supplier relationships can give you sustainable competitive advantage," argues Professor John Henke, Oakland University lecturer and president of management consultancy Planning Perspectives.

He says being the "customer of choice" is increasingly important, and the better the relations the more likely they will be that customer of choice.

"This becomes particularly important if it's a seller's market," he adds.

Luc Volatier, executive in residence, purchasing and operations management, at the Institute for Management Development in Switzerland, agrees. He points out that research shows suppliers are more and more careful to pick the right buyers - "so it's the supplier choosing you".

This is borne out by Peter Truijen, CFO at consumer and commercial product marketer Newell Rubbermaid: "You have to be attractive otherwise if there's a bigger partner the supplier will go with them."

Furthermore, Henke says, since some suppliers will be providing goods to your rival as well as your company, they can compare how they are treated by each, which can in turn influence their behaviour.

"Are suppliers putting their best resources behind you, or your competitor?" asks Volatier.

The benefits

So there are some risks if you don't manage your relations with your key suppliers, but what of the benefits?

One of the most persuasive arguments comes from Henke, who believes he and his team are on the cusp of directly correlating strong supplier relations with a percentage difference in prices.

He leads an annual review of tier one suppliers of car manufacturers in North America - Chrysler, Ford, General Motors, Honda, Nissan and Toyota. Having studied 15 years' worth of data from the Working Relations Index (WRI) - which scores companies' supplier relations from 0-500, with

a rating above 350 considered strong - he said: "We think when the WRI goes up 10 per cent the cost of goods comes down 1 per cent.

"This is preliminary research, but even if it's half wrong it doesn't matter because we're talking about millions of dollars. The cost of good supplier relations doesn't even come close to the savings you can make."

Such stark terms may be hard to prove, but Henke says even anecdotal evidence supports the theory: "Some suppliers charge different amounts to different companies depending on what they have to go through to get the business."

He adds that if you go about SRM correctly, you can insist on more from your suppliers. "If you do it the right way you can put more price-cut and improvement demands on suppliers. If you can guarantee business and they know you will support them when things go wrong, and work with them to improve things until you can't anymore, then suppliers will stick with you, not just switch allegiances."

Not only might you be offered better prices, Henke argues, working closely with suppliers can help make money. "As strange as it may seem, greater profits as a buyer also means greater profits as a supplier."

Barbara Kux, CPO at Royal Philips Electronics, says the company has selected 30 strategic suppliers, a move which has reduced the time to market of some goods by 50 per cent. "We're twice as fast," she says.

Nelis says good SRM led to a similar experience at Roche.

"We had two suppliers of a particular product, we were running out of capacity so needed a third but we didn't really want one because of intellectual property. So we sat down with our two suppliers and they agreed to work together to improve productivity, even though they were from very different backgrounds."

Trust and respect

All good motivations, but how do you go about SRM?

Henke says it is up to buyers to determine the nature of the relationship. "Suppliers cannot decide what sort of relationship they will have with you, suppliers can only react to the way a buyer behaves."

Volatier believes this leaves buyers with two choices: "The power game, or the trust game, it's up to you."

"For the past 20 years the game has been easy. You whistle, you get a supplier, hit them on the head, get a good price and call them back in 12 months."

"But people are reducing the number of suppliers, which means suppliers are becoming more powerful, they have a greater stake in your business."

Barbara Lavornos, head of purchasing at L'Oreal, says procurement has been building long-term relationships with suppliers for the past few years to support growth. Their approach is based on mutual respect, transparency and sharing information.

"The CEO wants to make L'Oreal a top performer and one of the world's most respected companies. Being respected also means being respected by our suppliers."

Volatier said the challenge for buyers was to apply just the right amount of pressure: "For years we've trained, selected and incentivised people to squeeze suppliers and treat them as beasts. Suppliers don't stand a chance. The more pressure you put on the better you feel, but the more value you destroy. Of course you need to be competitive but you also need to develop relationships."

But these relationships do not need to be established with every vendor, just those who are strategic to the company.

Time, effort & measurement

Once buyers have identified who to partner with, Henke suggests measuring the health of the existing relationship.

"Look at where your supplier relations are and where you want them to be. You need to know the status of your supplier relations in absolute terms across different sectors, sizes, countries, etc and find out how your perception compares to that of your suppliers."

He says in a manufacturing environment the key components that drive relationships are: communication (is it adequate and fast enough?); whether you help the supplier (to improve cost and quality, for example); or hinder them (by making late and excessive changes).

He adds the final driver for a supplier is what opportunity they have to make a profit. "There's nothing about cost savings," says Henke.

And don't expect strong supplier relations to happen overnight, warns Nelis.

"You have to invest time in this, it's not a set job or something you just do in the evening. You need the supplier to invest time in it, too. If someone in the team doesn't see the value of the relationship you will not be successful."

He says the following factors are critical to successful SRM:

- A management mandate: "make sure your company wants to do SRM".
- Global supplier relationship managers with adequate skills and passion. "You need someone who can bring the companies together, which traditional negotiators won't be able to do." He adds that separating your SRM and category managers is key because one person cannot do both jobs when it comes to negotiation.
- Establish behavioural norms. "Ensure internal alignment and manage stakeholders."
- Realise quick wins to motivate and create long-term value.
- Establish mutual interest and relationship targets.
- Don't wait for the right time to start - it will never happen, just start.
- Lastly, performance needs to be measured, "because only what's measured gets done. So have joint targets for the relationship to increase productivity, for example, or to mitigate risk."

So how does this work in reality? "At least once a year we want to see major stakeholders of two companies at the table." At these sessions they seek to understand each other's intentions and priorities, exploit common ground and banish any problems. They conclude by agreeing common goals and setting an action plan.

In conclusion, according to Nelis, SRM is like a sheepdog:
"You need to lead from the back, realise its bark is worse than its bite and that you don't want to lose anyone along the way."

MORE INFO: Luc Volatier's top five points

- Remember you buy from individuals, not companies.
- Be open and fast in your communication with suppliers
- there's nothing worse than trying to hide bad news.
- Building trust takes time and effort.
- Try to maintain a 'full reservoir of goodwill' because you never know when you might need to call in a favour.
- CPOs would do better to see themselves as 'CROs' - 'chief relationship officers'.

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