

# Great expectations

Many organisations aren't capitalising on the benefits of supplier relationship management. Helen Gilbert examines what can be gained and asks why some buyers are missing out.

**The merits of supplier relationship management (SRM) have been touted for some time. And it received further backing when a study found firms investing in it achieved savings of up to 3 per cent on their annual procurement spend. Others managed only 1 per cent.**

The Accenture survey analysed data from 229 senior procurement executives from a range of industries in 13 countries. It revealed firms that actively managed suppliers were able to respond quickly to marketplace changes, reach customers with the "right priced products and services" and, ultimately, optimise the value delivered through the relationships over their lifecycle.

Procurement departments, the survey concluded, can deliver real benefits to a company when they work cross-functionally with other departments and suppliers. Despite the findings, there seems to be little consensus as to how organisations should approach SRM and, indeed, the role procurement departments should play in it.

## Adapt for the future

According to Steve Singleton, a consultant in Accenture's supply chain management practice, SRM is a term that has been bandied about for some time, but remains a "relatively underdeveloped" component of the strategic sourcing process.

"Few organisations have actually developed well structured, comprehensive approaches to SRM," he says.

"But we are seeing a great deal of focus on this area. Organisations are realising they need to actively manage suppliers and contracts as part of long-term strategic category management to deliver and demonstrate the savings and benefits promised through the sourcing and negotiating process."

SRM, he says, requires "a medium to long term strategy, a comprehensive set of tactics, approaches and tools, supported

by structured and frequent management of all aspects of the supply agreement and supplier relationship."

Singleton believes the process is often hampered by a blinkered view of the value of SRM when compared to price negotiation techniques. Poorly defined processes alongside decentralised sourcing and procurement responsibilities and a lack of investment in SRM skills do not help either, he adds.

## British Airways

Paul Alexander, former head of SRM and currently general manager of aircraft and engineering procurement at British Airways (BA), agrees. "The skills buyers are trained in are not necessarily the same as those in SRM, which takes a longer-term perspective and concentrates on soft skills."

The airline developed a three-pronged SRM strategy 18 months ago because many of its supplier relationships are complex and long-term. The strategy involves a "category planning process" where BA works out which suppliers it can "relationship manage" - the airline spends £3.8 billion a year and aims to actively manage 80 per cent of that total.

"While we are a procurement department, a large amount of the value we create happens out of the sourcing process. Of the cost benefits we report, 60 per cent comes from supplier management activity."

Once it has identified who to manage, an account plan is drawn up outlining what BA wants to achieve with the supplier. It states who is in control of the relationship, potential risks and details the supplier's interests. The airline researches how well the supplier is performing via online surveys and looks at buyer satisfaction and supplier responsiveness.

The final prong is an internet-based systems tool for buyers. It provides answers to problems they are trying to solve, suggests what path they should take, who should be involved

and how they can get to where they want to be.

"We're trying to lock in value from the sourcing activity," says Alexander. "We do not assume the value of the deal will remain in place. Contracts are very important but they do not describe the whole trading relationship. Procurement departments tend to focus on doing deals. This is important, but misses the point. A big part of what you are doing is managing the supplier, which in my opinion, has more sustainable advantages."

However, he understands why some firms might find implementing SRM difficult. "There's a natural conflict between sourcing and supply management. As business is driven by the bottom line, the benefits of supply management are hard to measure. For instance, if I persuaded you, as a supplier, to deliver your parts on time - how do you measure that?"

## Sticking together

According to Singleton, too many organisations believe that sourcing stops at the implemented contract stage and move on to the next negotiation, leaving the contract to manage itself.

This is an area that needs to be addressed, particularly as organisations are becoming more global, outsourcing more and increasingly relying on their supply chains. As this trend continues, the need to actively manage suppliers and performance will become even greater.

And with increased competition in the market, organisations will look to their suppliers to provide sources of value and differentiation. "If an organisation fails to manage its supplier relationships it is leaving to chance the realisation of the potential latent value in the relationship," he says.

"Effective SRM can deliver value for the organisation through a solid sourcing process and supplier management

approach, to lock in the value from sourcing - so often lost through post contract interactions - and to extend the value delivered from suppliers through an ongoing focus on collaboration and integration."

"Drilling down" appears to be a vital aspect of successful SRM and supplier collaboration and integration was an area that Asda was quick to home in on when it turned its attention to sourcing from local suppliers four years ago.

The supermarket now has a dedicated local sourcing team whose sole aim is to identify local products and work with small suppliers to enable their products to reach the stores. The team enlists the support of regional food groups, customers and colleagues to discover essential local brands in each area and decides which stores they would sell in. If there is large demand for a product, they ensure the supplier is not overwhelmed and work together to reach supply agreements.

"Local products often come from very small suppliers," an Asda spokesperson says. "Therefore it is important for us to make it as cheap, easy and risk-free as possible for these suppliers to do business with us. This means we have had to change the way we work."

Reduced payment terms have been introduced to help ease cash flow problems and no costly technology is needed. Unlike other suppliers, local vendors do not need an electronic information system that processes and receives orders and payments. A simple fax will do the job.

Each local supplier is given a glossary and guide on how to complete necessary paperwork, which has been simplified with the jargon stripped out. Goods can also be delivered direct to the store.

A food hygiene accreditation system has been created between Asda's technical team and an independent lab. "It is just as effective but simpler, quicker and cheaper to implement than the current industry standard," the spokesperson says.

## Closer connections

In addition, supplier days are regularly held to bring all Asda's local suppliers together. This not only fixes teething problems, but ensures they have access to as many members of Asda's local sourcing team as possible. The supermarket has also drawn up a commitment to the supplier. This includes selling products for between three and six months regardless of sales figures to give the product every opportunity to succeed.

According to Singleton, this is a sound approach. "Accenture's survey demonstrated that companies are often taking an ad hoc approach to SRM - if they are focusing on it at all. Laggards are continuing to focus on pricing issues with suppliers, while leaders frequently discuss joint working in pursuit of mutual benefit and profitable, longer-term relationships."

Asda and BA are not alone in taking the SRM path. The NHS Purchasing and Supply Agency (NHS Pasa) restructured in 2005 to enable closer cross-departmental and organisational working linked to the needs of purchasing priorities.

A spokesperson describes accurate data as a key requirement for effective SRM. "NHS Pasa now requires suppliers to its framework agreements to return regular information on the business they do with us. This not only helps identify the levels of benefits and savings being obtained by the NHS but also helps identify areas where business volumes are not as expected and where suppliers might need support," she says.

And the role of SRM seems to be evolving through the supply chain. As a supplier, Dow Corning, a chemicals and plastics company, with over 25,000 customers and over 7,000 products and services, is keen for SRM to go one step further and benefit the customer.

According to Brett Able, the company's vice-president executive director of global supply chains, one size does not

fit all when it comes to SRM. "There are no textbook rules or mathematical equations that help define the boundaries of a supply chain... you need to be partners with your customers. It is no longer good enough simply to have customer points of contact limited to your sales person and their procurement department.

"In an integrated supply chain, more employees can be involved in solving problems for customers, visiting them at their sites or working alongside commercial staff to find new solutions. For a global organisation this adds tremendous resources."

He cites an example when one of Dow Corning's key personal care customers faced a production shutdown when their raw material shipment from Belgium was delayed in transit.

Dow Corning's plant in Korea found a way to solve the customer's problem. Within a week it had produced five tonnes of the polymer required, got it qualified by the customer and shipped enough product for the customer to continue production.

"We once thought information translated into power, but, today the power is in the sharing of information, which in this context, provides an opportunity to reduce costs that can be shared by all the constituents within the supply chain," says Able.

## Seeing the whole picture

The focus on SRM is going to grow and organisations are well advised to start researching this area. A holistic approach would appear to be the way forward - one where cross-functional teams work together and develop a transparent and comprehensive cost modelling approach which demonstrates all types of benefits.

Singleton concludes: "Procurement should take a lead

within the SRM initiative and help to create consensus of potential value and an agreed approach with other executives and with key stakeholders within the business."

### Case study: JP Morgan and Lloyds TSB

More products are coming on to the market that will help firms get to grips with certain aspects of SRM. In April, Lloyds TSB and JP Morgan launched a UK supplier finance service, which enables firms to manage payments to their suppliers more efficiently.

The service, to be introduced as part of a controlled expansion programme over the next 18 months, allows suppliers to receive payment at a date of their choice, which can be earlier than the agreed payment terms.

"The solution has huge potential to improve the working capital and profit margin of major corporate buyers and the cashflow of their suppliers throughout the UK," explains Ted Ettershank, managing director of commercial finance at Lloyds TSB.

So how will it work? Firms with numerous suppliers on deferred payment terms, such as supermarkets, are able to sign up for the service. JP Morgan and Lloyds TSB, together with the supermarket, would then roll out the programme to the supermarket's suppliers or to selected suppliers requested by the store.

The supplier then decides if it wants to take part in the service. If the supplier agrees, it then signs up for the internet-based programme. The supplier then has access to the online system and can track all invoices supplied to the supermarket for payment. It can also see whether the supermarket has accepted the invoices and when it agrees to pay them.

Once the supermarket has approved the invoices, rather than having to wait until day 30 or 60, the supplier can log on to the system and determine when it would like to be paid. JP

Morgan would pay the supplier on the day it chose, and would collect the payable from the supermarket on a regular date.

"JP Morgan makes money on the difference between the supermarket's borrowing costs and the suppliers' borrowing costs," explains Jeremy Shaw, senior vice-president and head of trade services in Europe, Middle East and Africa at JP Morgan Treasury Services.

"The system is entirely electronic and web-based and is easy and transparent for the suppliers and buyers. It can provide tremendous control to buyers on their payables and at the same time provide suppliers with the comfort that they will get their goods at their chosen time."

By making the process of buying and selling more effective, Shaw says there is greater opportunity to reduce working capital tied up in the process. "If there is an increase in transparency, which this solution provides, it could help to build stronger buyer/supplier relationships and potentially provide financing as part of the regular supplier/buyer relationship. That can result in a stronger supply source as a preferential buyer, possibly cheaper cost of goods."

### How to reap rewards

According to Accenture, SRM leaders have done the following:

- Supplier segmentation: identifying the right buyer-supplier relationship to form part of the strategic sourcing process
- Contract management: enabling comparative analysis and the monitoring of contract compliance
- Supplier performance management: the monitoring of suppliers' operational, administrative and cost management performance
- Integration and collaboration: integration relates to systems integration with key suppliers, allowing for more streamlined planning and fulfilment. Collaboration relates to joint improvement planning.

These should also be underpinned by:

- An organisational structure where SRM becomes a critical function and the procurement department's cross-functional team efforts are institutionalised and encouraged
- The right people whose skills are developed and deployed and are focused on working more closely with key suppliers to deliver value, for both the supplier and their own organisations over time
- The right technology to capture and assimilate supplier specific information and data.

### The ABC of SRM

Ways to develop SRM in your organisation:

- Build SRM approaches into sourcing methodologies
- Create SRM manager roles
- Train people on SRM approaches
- Implement more sophisticated decision-making processes with complex decision criteria where price is decreasingly important
- Contracting for increased and incremental value over the duration of contracts and relationships
- Build joint working forums focused on identifying and delivering joint improvement programmes
- Incentivise and reward suppliers to deliver demonstrated value
- Focus on total cost of ownership (TCO) and life-cycle costs where increased price can be evidenced and supported as a positive outcome if TCO costs are reduced

*Source: Accenture*

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